JAMES A. RHODES STATE COLLEGE

ALLEN COUNTY, OHIO

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

JUNE 30, 2006 AND 2005

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Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the James A. Rhodes State College, Allen County, prepared by E.S. Evans and Company for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The James A. Rhodes State College is responsible for compliance with these laws and regulations.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

January 8, 2007

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JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

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Certified Public Accountants and Consultants
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Robert E. Wendel, CPA • Dan F. Clifford, CPA • E.S. Evans, CPA, PFS (1930-1999)

December 6, 2006

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of James A. Rhodes State College, Allen County, Ohio (the College), as of and for the years ended June 30, 2006 and 2005, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of James A. Rhodes State College, as of June 30, 2006 and 2005, and the respective changes in financial position and 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 December 6, 2006, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The accompanying Schedule of Federal Awards Expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, it is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

E S Evans and Company

MANAGEMENT'S DISCUSSION AND ANALYSIS

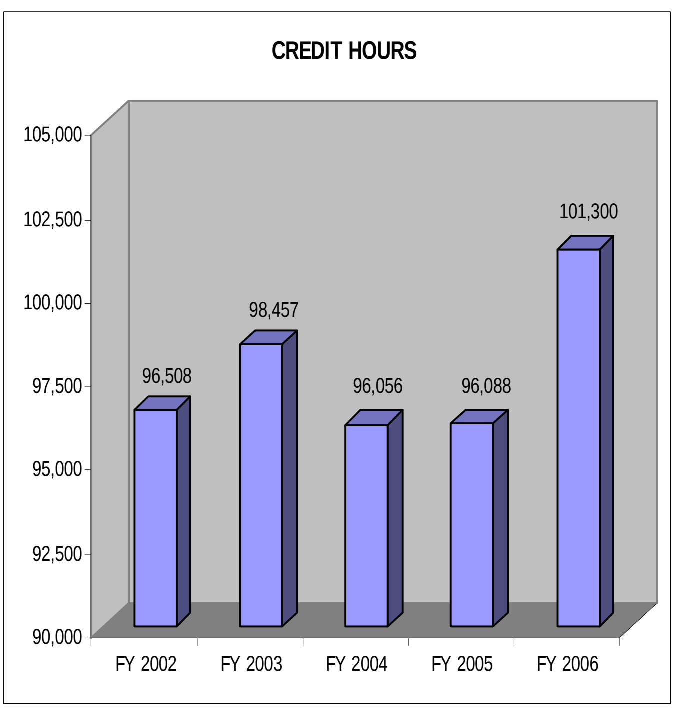
This section of James A. Rhodes State College annual financial report presents management's discussion and analysis of the College's financial performance during the fiscal years that ended June 30, 2006 and 2005. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and notes.

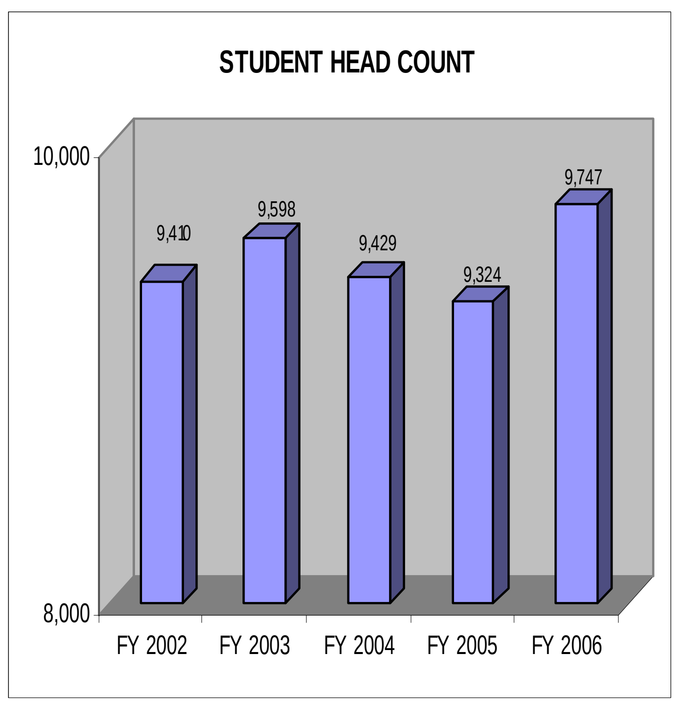
THE COLLEGE

James A. Rhodes State College is a public, two-year institution of higher learning. The College offers over 90 Associate degrees, majors and 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 Higher Learning Commission, a commission of the North Central Association of Colleges and Schools. The college is one of seven (7) co-located campuses in Ohio, and maintains a cost-shared agreement with The Ohio State University at Lima, regional campus.

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

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





MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended June 30, 2006 and 2005

FINANCIAL HIGHLIGHTS

In Fiscal Year 2006, the College provided over 101,000 credit hours and this was a 5.4% increase over Fiscal Year 2005. Since 2001, enrollments have increased by 19.3%.

Unrestricted net assets increased by $503,694 in Fiscal Year 2006 and $698,607 in Fiscal Year 2005. The College has six consecutive years of increasing unrestricted net assets. This is the result of the College's ability to effectively monitor and manage its financial resources.

In Fiscal Year 2006, operating revenues increased by $1,404,830 or 10.9%; net non-operating revenues increased $80,524 or 1.0%; while operating expenses increased by $1,998,598 or 9.5%. In Fiscal Year 2005, operating revenues increased by $560,530 or 4.6%, net non-operating revenues increased $543,023 or 7.3% while operating expenses increased by $814,974 or 4.0%.

USING THE ANNUAL REPORT

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

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

The Statement of Net Assets includes all assets and liabilities. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. The Governmental Accounting Standards Board Statement No. 35 requires state appropriations to be classified as non-operating revenues. Therefore, as a result of this classification, the College will show an operating deficit prior to the addition of net non-operating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended June 30, 2006 and 2005

CONDENSED FINANCIAL INFORMATION

STATEMENTS OF NET ASSETS
(in thousands)

	2006	2005	06/05 $ Change	2004	05/04 $ Change
ASSETS					
Current Assets	$ 9,671	$ 9,789	$ (118)	$ 11,065	$ (1,276)
Noncurrent, Capital Assets, net	27,947	28,262	(315)	26,072	2,190
Total Assets	37,618	38,051	(433)	37,137	914
LIABILITIES					
Current Liabilities	2,470	2,443	27	2,620	(177)
Noncurrent Liabilities	3,728	3,749	(21)	3,754	(5)
Total Liabilities	6,198	6,192	6	6,374	(182)
NET ASSETS					
Invested in capital assets, net Of related debt	24,678	25,621	(943)	25,200	421
Restricted, Expendable	9	9	-	33	(24)
Restricted, Nonexpendable	-	-	-	-	-
Unrestricted	6,733	6,229	504	5,530	699
Total Net Assets	31,420	31,859	(439)	30,763	1,096
Total Liabilities and Net Assets	$ 37,618	$ 38,051	$ (433)	$ 37,137	$ 914

Assets - As of June 30, 2006, the College's total assets were $37.6 million compared to $38.1 million in fiscal year 2005 and $37.1 million in fiscal year 2004. Capital assets, net of accumulated depreciation are the college's largest asset. This represents 74.3%, 74.3 % and 70.2% of total assets for fiscal years 2006, 2005 and 2004 respectively. Cash and cash equivalents are the second largest asset category at $6.7 million, $7.2 million and $8.3 million for fiscal years 2006, 2005, and 2004 respectively. This represents 17.8%, 18.8% and 22.4% of the total assets for fiscal years 2006, 2005 and 2004 respectively. Cash and cash equivalents were higher in 2004 because the college had sold general receipts bonds to pay for Keese Hall which was paid for in fiscal year 2005.

Liabilities - As of June 30, 2006, the College's liabilities totaled approximately $6.2 million compared to $6.2 million in fiscal year 2005 and $6.4 million in fiscal year 2004. Bonds Payable, net represented the largest portion of liabilities with $3.0 million for each of the three fiscal years. Bonds payable, net represents approximately 48% of total liabilities for each year. The general receipts bonds are payable over thirty years with final payment due in 2033.

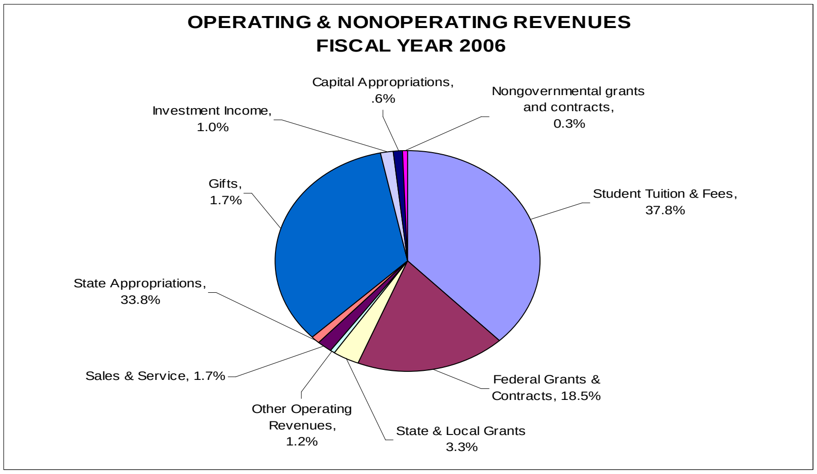
Net Assets - Net Assets as of June 30, 2006 were $31.4 million compared to $31.9 million in fiscal year 2005 and $30.8 million in fiscal year 2004. Invested in capital assets, net of related debt represents the largest portion of net assets at 78.5%, 80.4% and 82.2% of total net assets for fiscal years 2006, 2005 and 2004 respectively. Unrestricted net assets increased $504 thousand, $699 thousand and $722 thousand for fiscal years 2006, 2005 and 2004 respectively. This is an increase of 8.1%, 12.6% and 15.0% for fiscal years 2006, 2005 and 2004 respectively.

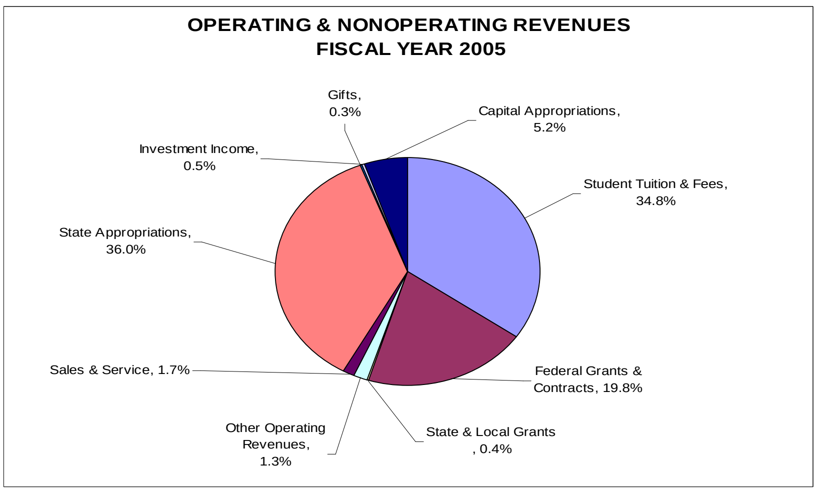
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
(in thousands)

	2006	2005	06/05 $ Change	2004	05/04 $ Change
OPERATING REVENUES					
Student tuition and fees, net	$ 8,566	$ 7,705	$ 861	$ 7,760	$ (55)
Federal grants and contracts	4,186	4,390	(204)	3,723	667
State grants and contracts	753	81	672	136	(55)
Non-Governmental grants and contracts	77	-	77	3	(3)
Sales and services	393	387	6	378	9
Other Operating Revenues	282	289	(7)	292	(3)
Total Operating Revenues	14,257	12,852	1,405	12,292	560
OPERATING EXPENSES					
Educational and General	21,917	19,992	1,925	19,152	840
Depreciation	1,025	951	74	977	(26)
Total Operating Expenses	22,942	20,943	1,999	20,129	814
Operating Income (Loss)	(8,685)	(8,091)	(594)	(7,837)	(254)
NONOPERATING REVENUES (EXPENSES)					
State Appropriations	7,668	7,958	(290)	7,329	629
Gifts	376	57	319	165	(108)
Investment Income	238	103	135	42	61
Interest on Capital Asset-Related Debt	(170)	(86)	(84)	-	(86)
Other Non-Operating Revenues (Expenses)	-	-	-	(47)	47
Net Non-Operating Revenues (Expenses)	8,112	8,032	80	7,489	543
Income before other rev, exp, gains or losses	(573)	(59)	(514)	(348)	289
Capital Appropriations	134	1,155	(1,021)	3,383	(2,228)
Total other rev, exp, gains or losses	134	1,155	(1,021)	3,383	(2,228)
Increase/(Decrease) in Net Assets	(439)	1,096	(1,535)	3,035	(1,939)
Net assets beginning of year	31,859	30,763	1,096	27,728	3,035
Net assets end of year	$ 31,420	$ 31,859	$ (439)	$ 30,763	$ 1,096

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended June 30, 2006 and 2005

The following is a graphic illustration of revenues by source for the years ended June 30, 2006 and 2005:



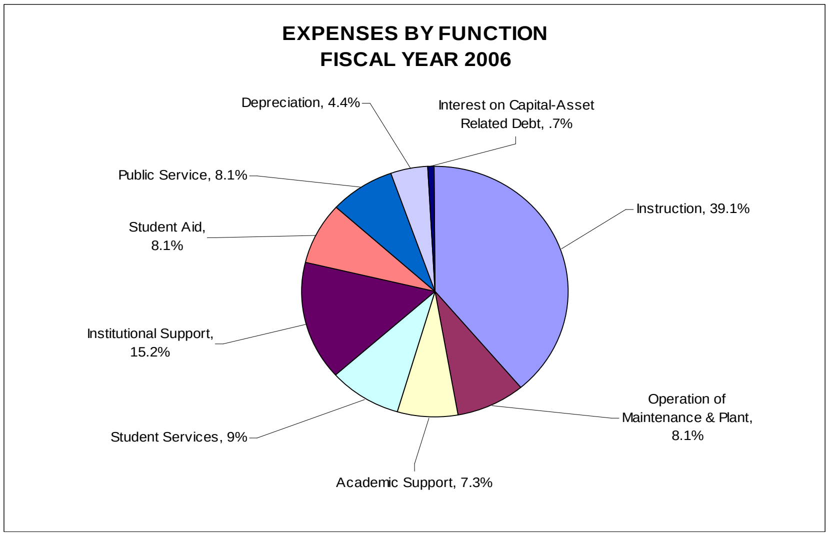


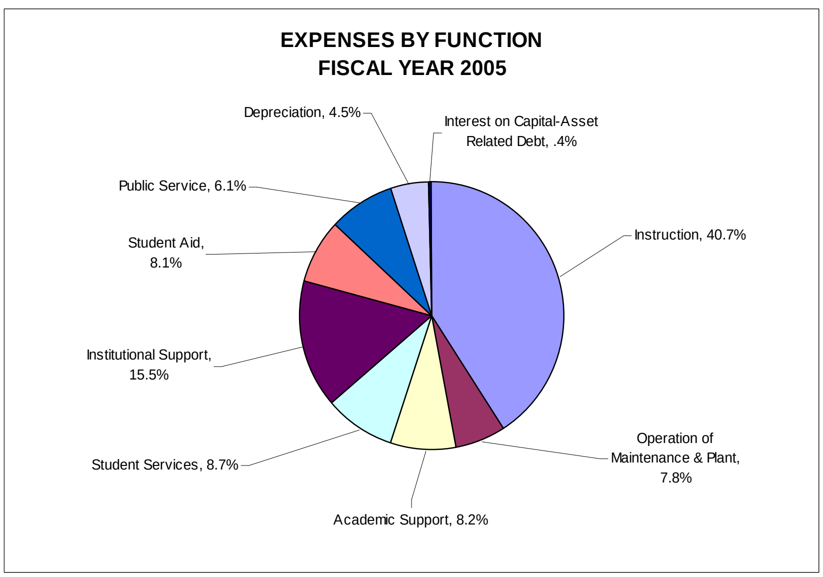
The largest sources of the College's revenues (over 70%) come from Student Tuition & Fees (net of scholarship allowance) and State Appropriations. Student tuition and fees, net were $8.6 million and $7.7 million for fiscal years 2006 and 2005 respectively. State appropriations were $7.6 million and $7.9 million for fiscal years 2006 and 2005 respectively. Federal grants and contracts were $4.2 million and $4.4 million for fiscal years 2006 and 2005 respectively. Capital appropriations were $1.1 million in fiscal year 2005 for Keese Hall. Total operating and non-operating revenues were $22.7 and $22.1 million for fiscal years 2006 and 2005 respectively.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended June 30, 2006 and 2005

The following is a graphic illustration of expenses by function for the years ended June 30, 2006 and 2005:

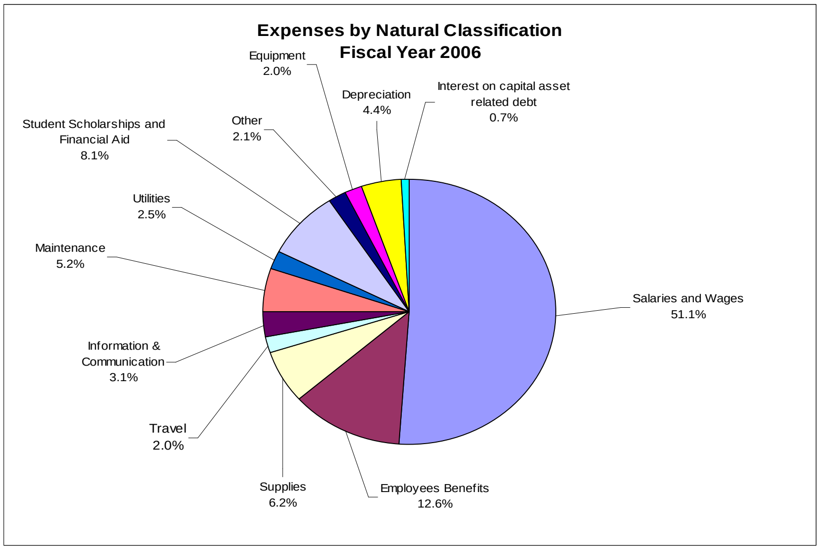


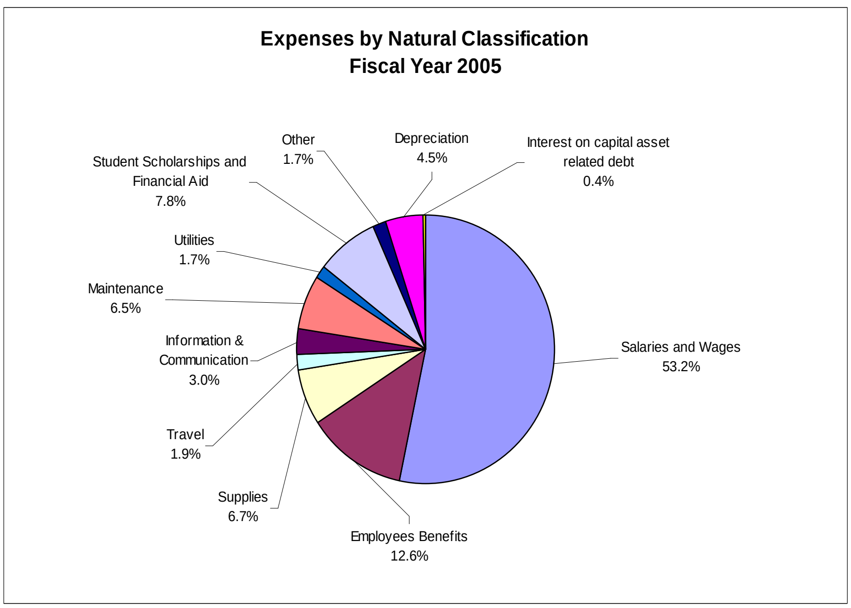


Instructional expenditures are the largest expense for the College. Instructional expenses were $9.0 million and $8.6 million for fiscal years 2006 and 2005 respectively. The majority of the increase was in the Nursing program. Public service expenses were $1.9 million and $1.3 million respectively. The increase in public service was related to the award of an equipment grant from the Oho Department of Development. Academic support expenses were approximately the same for both years at $1.7 million. Student services expenses were $2.0 million and $1.8 million respectively. Institutional support expenses were $3.5 million and $3.3 million respectively. Operation and maintenance of plant expenses were $1.9 million and $1.6 million respectively, with the largest increase coming in utilities. Student aid expenses were $1.9 million and $1.7 million with the College awarding more scholarships in 2006. Total operating and non-operating expenses were $23.1 million and $21.0 million respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended June 30, 2006 and 2005

The following is a graphic illustration of expenses by natural classification for the years ended June 30, 2006 and 2005:





Salaries and wages were the largest expense for the College at 51.1% and 53.2% for fiscal years 2006 and 2005 respectively. Wages and benefits accounted for 63.7% and 65.8% of the College's total expenses respectively. The next largest expense was student scholarships.

Salaries and wages were \$11.8 million and \$11.2 million respectively. Employee benefits were \$2.9 million and \$2.7 million respectively. Student scholarships were \$1.9 million and \$1.7 million respectively. Supplies were \$1.4 million for both years. Maintenance was \$1.2 million and \$1.3 million respectively. Total operating and non-operating expenses were \$23.1 million and \$21.0 million for fiscal years 2006 and 2005 respectively.

STATEMENTS OF CASH FLOWS
(in thousands)

Net cash provided (used) by:	2006	2005	06/05 $ Change	2004	05/04 $ Change
Operating activities	$ (7,676)	$ (7,200)	$ (476)	$ (7,219)	$ 19
Non-capital financing activities	7,915	8,226	(311)	7,353	873
Capital financing activities	(946)	(2,264)	1,318	2,612	(4,876)
Investing activities	238	103	135	42	61
Net Increase/(Decrease) in cash	(469)	(1,135)	666	2,788	(3,923)
Cash beginning of year	7,168	8,303	(1,135)	5,515	2,788
Cash end of year	$ 6,699	$ 7,168	$ (469)	$ 8,303	$ (1,135)

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, and grants and contracts. Tuition and fees generated cash of $9.0, $7.8 and $7.6 million in fiscal years 2006, 2005, and 2004 respectively. Grants and contracts generated cash of $4.6, $4.4 and $3.7 million in fiscal years 2006, 2005 and 2004 respectively. Major uses of cash included in the operating activities were payments for wages, supplies and services, and employee benefits. Payments to employees amounted to $11.8, $11.1 and $11.2 million in fiscal years 2006, 2005, and 2004 respectively. Payments for supplies and services amounted to $4.6, $4.0, and $3.7 million in fiscal years 2006, 2005, and 2004 respectively. Payments for benefits amounted to $3.0, $2.8, and $2.5 million in fiscal years 2006, 2005, and 2004 respectively. State appropriations are the primary source of cash for non-capital financing activities. The College received $7.7, $8.0 and $7.3 million in state appropriations in fiscal years 2006, 2005, and 2004 respectively. The 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. Major uses of cash included in the capital financing activities were payments for capital assets. The College paid $0.7, $2.1 and $0.6 million for capital assets in fiscal years 2006, 2005, and 2004 respectively. In 2004, the major source of capital financing was the proceeds from the sale of bonds of $3.1 million.

COMPONENT UNIT

Component Unit

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

CAPITAL ASSETS AND DEBT

Capital Assets

The total cost of capital assets were $36.5, $36.1 and $32.9 million for fiscal years 2006, 2005 and 2004 respectively. The accumulated depreciation was $8.5, $7.8 and $6.9 million for fiscal years 2006, 2005 and 2004 respectively. Depreciation expense for the years ended June 30, 2006, 2005 and 2004 were $1,025,036, $951,342 and $976,934 respectively. A summary of net capital assets for the years ended June 30 is as follows:

	2006	2005	2004
Land Improvements	$ 239,451	$ 264,321	$ 123,605
Buildings and Improvements	25,169,578	25,603,363	20,209,944
Infrastructure	82,418	89,173	95,927
Moveable Equipment	2,226,620	2,081,078	1,300,703
Library Books	229,053	224,774	224,162
Construction in Progress	-	-	4,117,702
Total Capital Assets, net	$ 27,947,120	$ 28,262,709	$ 26,072,043

During fiscal year 2006, the College purchased $442,430 of moveable equipment, $218,747 in building improvements, and $48,270 of library books. During fiscal year 2005, the College purchased $1,038,007 of moveable equipment, $161,076 in land improvements, and $43,813 of library books.

Debt

In October 2003, the College issued $3.1 million in general receipts bonds for the construction of Keese Hall. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended June 30, 2006 and 2005

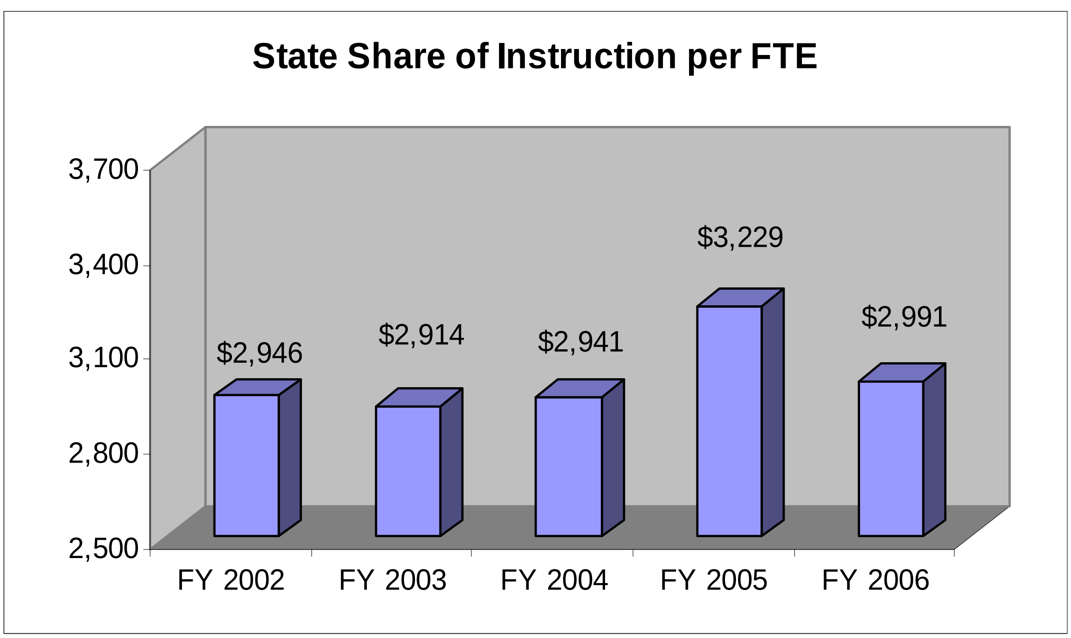
State Appropriations per Dollar of Gross Tuition

Fiscal Year	Gross Tuition	State Appropriations	Net State Appropriations per Dollar of Gross Tuition
2006	$10,505,975	$ 7,668,903	0.73
2005	$ 9,329,826	$ 7,957,978	0.85
2004	$ 9,152,973	$ 7,329,027	0.80
2003	$ 8,347,392	$ 7,288,195	0.87
2002	$ 7,755,962	$ 7,248,007	0.93

In 2002, the State contributed $0.93 to James A Rhodes State College for every dollar of gross tuition. In 2006 that figure has dropped to $0.73. This is a 21.5% decrease in state appropriations since 2002.

State Share of Instruction

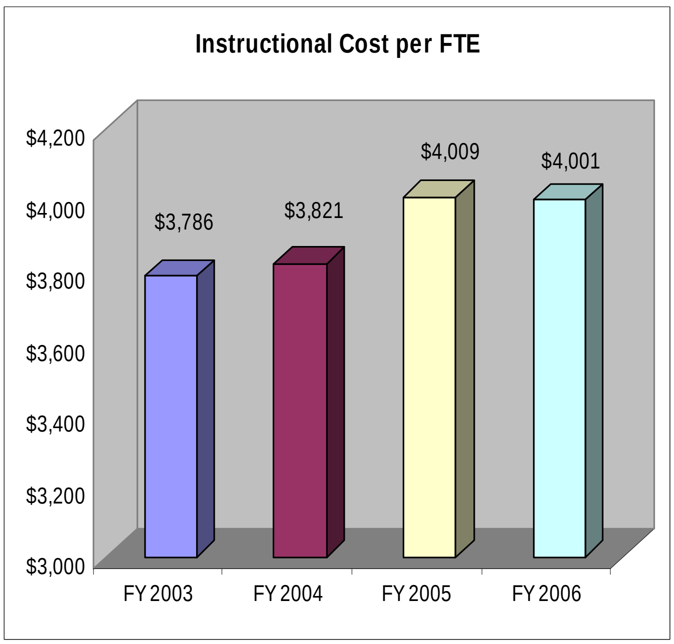
In an effort to understand the funding (or lack of) from state appropriations, the table below shows the five-year trend in funding by annual full time equivalent (FTE). Annual FTE is calculated as total credit hours divided by 45. The state share of instruction per FTE in 2001 was $3,573. The budget cuts beginning in 2002 decreased the state share of instruction per FTE by 17.5% which has had a large impact on the College's budget. This does not take into consideration inflation. The decrease in state funding along with rising operating costs has made it necessary to raise tuition rates.

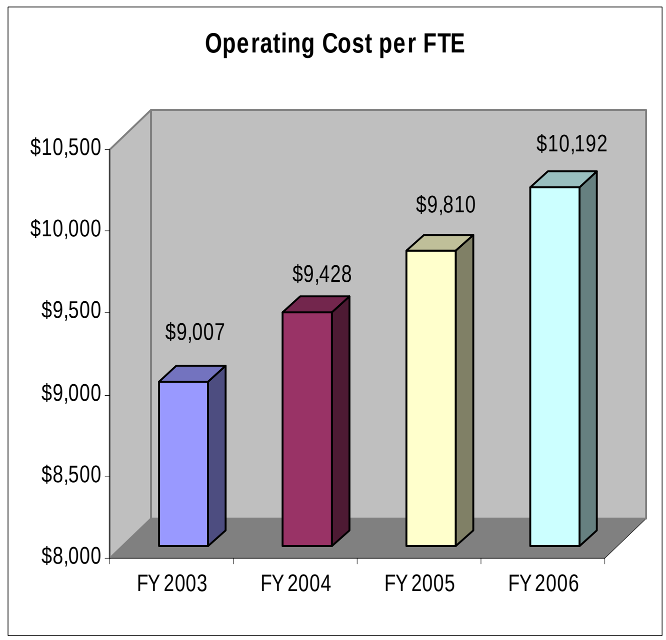


Operating and Instructional Expenses per Annual Student FTE

	2006	2005	2004	2003
Total Operating Expenses	$22,942,490	$ 20,943,892	$ 20,128,918	$ 19,707,915
Instructional Expenses	$ 9,005,725	$ 8,559,215	$ 8,157,321	$ 8,284,519
Annual Student FTE Enrollment	2,251	2,135	2,135	2,188

Annual full time equivalent (FTE) is calculated by taking the total number of student credit hours and dividing by forty-five (45). A review of the total instructional expenses shows that instructional expenses per FTE decreased by 0.20% in FY2006 and increased by 4.89% in FY2005. Operating expenses per FTE increased by 3.89% in FY2006 and 4.05% in FY2005.





FACTORS IMPACTING FUTURE PERIODS

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

The economic position of the College is closely tied to that of the State of Ohio. There has been and will be a direct relationship between the level of state support and the College's ability to control tuition growth, as declines in state appropriations often result in increased tuition rates. The College expects its state share of instruction (SSI) to remain flat. The Ohio Board of Regents is conducting a comprehensive review of the SSI formula. The potential for a change in funding will bring more challenges in planning and budgeting in future years. The College raised tuition rates 5.1% effective for Summer Quarter 2006.

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.

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:

Title	Name	Address	Phone
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

STATEMENTS OF NET ASSETS
June 30, 2006 and 2005

	2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,698,798	$ 7,167,629
Accounts receivable, net	2,606,164	2,389,692
Appropriations receivable	357,064	222,726
Other current assets	8,505	8,706
TOTAL CURRENT ASSETS	9,670,531	9,788,753
NONCURRENT ASSETS:		
Capital assets, net	27,947,120	28,262,709
TOTAL NONCURRENT ASSETS	27,947,120	28,262,709
TOTAL ASSETS	$ 37,617,651	$ 38,051,462
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable, net	$ 581,080	$ 638,696
Current portion of bonds payable	50,000	50,000
Accrued liabilities	854,236	913,857
Deferred revenue	984,252	841,223
TOTAL CURRENT LIABILITIES	2,469,568	2,443,776
NONCURRENT LIABILITIES:		
Bonds payable, net of current portion	2,968,241	3,017,812
Compensated absences	760,015	731,270
TOTAL NONCURRENT LIABILITIES	3,728,256	3,749,082
TOTAL LIABILITIES	6,197,824	6,192,858
NET ASSETS:		
Invested in capital assets, net of related debt	24,678,233	25,620,704
Restricted		
Expendable	8,467	8,467
Unrestricted	6,733,127	6,229,433
TOTAL NET ASSETS	31,419,827	31,858,604
TOTAL LIABILITIES AND NET ASSETS	$ 37,617,651	$ 38,051,462

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

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

COMPONENT UNIT - FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2006 and 2005

	2006	2005
Assets:		
Cash and Cash Equivalents	$ 462,371	$ 348,707
Investments	1,212,451	1,053,846
Pledges Receivable	2,988,296	3,607,204
Accounts Receivable	3,615	4,551
Accrued Interest Receivable	304	128
Schell Foundation Loans Receivable	71,808	72,943
Total Assets	$ 4,738,845	$ 5,087,379
Liabilities and Net Assets:		
Accounts Payable	$ 177,942	$ 75,607
Total Liabilities	177,942	75,607
Net Assets:		
Unrestricted	613,344	591,130
Temporarily Restricted	3,361,396	3,867,949
Permanently Restricted	586,163	562,693
Total Net Assets	4,560,903	5,021,772
Total Liabilities and Net Assets	$ 4,738,845	$ 5,097,379

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

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2006 and 2005

	2006	2005
REVENUES		
Operating Revenues:		
Student tuition and fees (net of scholarship allowances of $1,939,815 and $1,624,822, respectively)	$ 8,566,161	$ 7,705,004
Federal grants and contracts	4,185,577	4,390,446
State and local grants and contracts	752,659	80,524
Nongovernmental grants and contracts	77,689	
Sales and services	392,886	387,036
Other operating revenues	282,047	289,179
Total operating revenues	14,257,019	12,852,189
EXPENSES		
Operating Expenses:		
Educational and general:		
Instruction	9,005,725	8,559,215
Public Service	1,882,104	1,287,832
Academic Support	1,683,188	1,716,363
Student Services	2,090,538	1,832,379
Institutional Support	3,507,203	3,250,154
Operation and Maintenance of Plant	1,882,588	1,645,364
Student Aid	1,866,107	1,701,243
Depreciation	1,025,036	951,342
Total operating expenses	22,942,489	20,943,892
Operating income (loss)	(8,685,470)	(8,091,703)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	7,668,903	7,957,978
Gifts	375,923	56,801
Investment income (net of investment expenses)	237,850	103,070
Interest on capital asset-related debt	(170,321)	(86,018)
Net Nonoperating Revenues (Expenses)	8,112,355	8,031,831
Income Before Other Revenues, Expenses, Gains or Losses	(573,115)	(59,872)
Capital appropriations	134,338	1,155,282
Total other revenues, expenses, gains, or losses	134,338	1,155,282
Increase/(Decrease) in net assets	(438,777)	1,095,410
NET ASSETS		
Net Assets, Beginning of Year	31,858,604	30,763,194
Net Assets, End of Year	$ 31,419,827	$ 31,858,604

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

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

COMPONENT UNIT - FOUNDATION

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2006 and 2005

For the Year Ended June 30, 2006:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support:				
Contributions - Note 13	$ 26,754	$ (94,444)	$ 23,470	$ (44,220)
Interest and Realized/Unrealized Gain/(Loss)	27,650	104,091	-	131,741
	54,404	9,647	23,470	87,521
Assets Released from Restrictions	516,199	(516,199)	-	-
Total Revenues, Gains and Other Support	570,603	(506,552)	23,470	87,521
Expenses and Losses:				
Management and General	29,137	-	-	29,137
Fundraising	10,253	-	-	10,253
Academic Programs	55,413	-	-	55,413
Scholarships/Grants	443,587	-	-	443,587
Total Expenses and Losses	538,390	-	-	538,390
Change in Net Assets	32,213	(506,552)	23,470	(450,869)
Net Assets - 7/1/05	581,131	3,867,948	562,693	5,011,772
Net Assets - 6/30/06	$ 613,344	$ 3,361,396	$ 586,163	$ 4,560,903

For the Year Ended June 30, 2005:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support:				
Contributions	$ 98,654	$ 3,562,439	$ 52,469	$ 3,713,562
Interest and Realized/Unrealized Gain/(Loss)	25,436	66,153	-	91,589
	124,090	3,628,592	52,469	3,805,151
Assets Released from Restrictions	101,273	(101,273)	-	-
Total Revenues, Gains and Other Support	225,363	3,527,319	52,469	3,805,151
Expenses and Losses:				
Management and General	16,788	-	-	16,788
Fundraising	10,288	-	-	10,288
Academic Programs	31,046	-	-	31,046
Scholarships/Grants	58,970	-	-	58,970
Total Expenses and Losses	117,092	-	-	117,092
Change in Net Assets	108,271	3,527,319	52,469	3,688,059
Net Assets - 7/1/04	472,860	340,629	510,224	1,323,713
Net Assets - 6/30/05	$ 581,131	$ 3,867,948	$ 562,693	$ 5,011,772

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

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 9,166,472	$ 7,755,530
Grants and contracts	4,613,386	4,391,404
Payments to suppliers	(4,800,492)	(4,021,473)
Payments to utilities	(570,781)	(370,170)
Payments to employees	(11,773,970)	(11,103,052)
Payments for benefits	(2,977,943)	(2,779,231)
Payments for student aid	(1,866,107)	(1,701,243)
Sales and services	245,124	390,835
Other receipts	288,213	237,141
Net cash provided (used) by operating activities	(7,676,098)	(7,200,259)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	7,668,903	7,957,978
Gifts and grants for other than capital purposes	246,305	267,781
Student loan receipts	6,555,442	5,713,243
Student loan disbursements	(6,555,442)	(5,713,243)
Net Cash provided (used) by noncapital activities	7,915,208	8,225,759
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Principal paid on bonds payable	(50,000)	(20,000)
Interest paid on bonds payable	(169,691)	(85,388)
Purchases of capital assets	(726,100)	(2,158,389)
Net cash provided (used) by financing activities	(945,791)	(2,263,777)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	237,850	103,070
Net cash provided (used) by investing activities	237,850	103,070
NET INCREASE (DECREASE) IN CASH	(468,831)	(1,135,207)
CASH AND CASH EQUIVALENTS, Beginning of Year	7,167,629	8,302,836
CASH AND CASH EQUIVALENTS, End of Year	$ 6,698,798	$ 7,167,629
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	$ (8,685,471)	$ (8,091,703)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	1,025,036	951,342
Changes in assets and liabilities:		
Accounts receivable, net	(86,853)	(125,338)
Prepaid expenses	-	83,506
Accounts payable, net	(40,964)	(30,394)
Accrued liabilities	(59,620)	(80,431)
Deferred revenue	143,029	48,059
Compensated absences	28,745	44,700
Net cash provided (used) by operating activities	$ (7,676,098)	$ (7,200,259)
NON-CASH TRANSACTIONS:		
Capital Appropriations	$ -	$ 1,127,113
Purchase of Capital Assets	-	(1,127,113)

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006 and 2005

Note 1 – Summary of Significant Accounting Policies

Description of the Entity

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

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

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

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Effective July 1, 2002, the College adopted GASB Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities, as amended by GASB Statements No. 37 and No. 38. GASB No. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net assets categories:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

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

    Expendable - Net assets whose use by the College is subject to externally imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.

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

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

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

Basis of Accounting

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

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

Cash and Cash Equivalents

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

Investments

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

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:

Classification	Years
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.

Scholarship Allowances

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

Restricted Asset Spending Policy

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

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

Operating Activities

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Accounting Pronouncements

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

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

Note 2 – Deposits and Investments

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

As of June 30, 2006, the College had the following deposits and investments:

	Bank Balance	Carrying Amount
Checking Accounts	$ 966,527	$ 667,759
Savings Accounts	2,169,468	2,169,468
STAR Ohio	3,798,523	3,798,523
	$ 6,934,518	$ 6,635,750

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

	Bank Balance	Carrying Amount
Checking Accounts	$ 1,327,997	$ 673,066
Savings Accounts	2,339,671	2,339,671
STAR Ohio	4,150,584	4,150,584
	$ 7,818,252	$ 7,163,321

The differences between the bank balances and the carrying amounts are primarily due to outstanding checks and deposits in transit. In addition to the above, there was cash on hand in the amount of $63,048 and $4,308 at June 30, 2006 and 2005, respectively.

Credit Risk - STAR Ohio is an investment pool managed by the Treasurer of the State of Ohio. STAR Ohio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Act of 1940. STAR Ohio has obtained an AAA money market rating by Standard & Poor's. The pooled collateral at Fifth Third Bank is not rated.

Concentration of Credit Risk - The College had approximately 64% of its investments in STAR Ohio and 36% in high yield savings accounts for both fiscal years.

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006 and 2005

Note 2 – Deposits and Investments – (continued)

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. Of the bank balances, $200,000 was insured by the Federal Depository Insurance Corporation (FDIC) and $2,935,995 and $3,467,668 for fiscal years 2006 and 2005, respectively, was exposed to custodial credit risk because it was secured by pledges of pooled collateral held by the banks trust department not in the College's name. The collateral is limited to obligations of the United States and its agencies, and the State of Ohio as permitted by Ohio law. The securities are held at the Bank of New York. The College does not have exposure to custodial credit risk for the investment in STAR Ohio as defined by Statement No. 40.

Component Unit – Foundation

As of June 30, 2006, the Foundation had the following deposits:

	Bank Balance	Carrying Amount
Checking Accounts	$ 258,661	$ 258,341
Savings Accounts	93,915	93,915
Certificates of Deposit	10,000	10,000
Money Market Account	100,115	100,115
	$ 462,691	$ 462,371

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

	Bank Balance	Carrying Amount
Checking Accounts	$ 340,140	$ 238,764
Savings Accounts	61,539	61,539
Certificates of Deposit	10,000	10,000
Money Market Account	38,404	38,404
	$ 450,083	$ 348,707

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

As of June 30, 2006, the Foundation had the following investments and maturities:

		Investment Maturities in Years		
Investment Type	FMV	Less than 1 year	1 to 5 years	Greater than 5 years
Corporate Bonds	$ 245,827	49,963	195,864	-
Common Stock	615,064	-	-	-
Equity Funds	351,560	-	-	-
Total Investments	$ 1,212,451			

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006 and 2005

Note 2 – Deposits and Investments – (continued)

Credit Risk - Of the bonds, $50,472 were rated AAA, $48,497 were rated AA, $121,816 were rated A, and $25,042 were rated BBB.

Concentration of Credit Risk - The Foundation investment policy states the target normal asset allocation should be 70% equity and 30% fixed income. The allowable range for equities is 50-80%, for fixed income is 20-50% and cash is 0-5%. There are limits in the equity investments to no more than 20% of stock shall be invested outside the United States, that no more than 5% of the equity portion shall be invested in any one company, and that no more than 20% of the equity portion shall be invested in any one industry sector. As of June 30, 2006, the portfolio allocation had 2.2% in cash, 26.6% in fixed income and 71.2% in equities. Of the equity portfolio, 11.8% were in international equities, the largest holding of a single company was 5.3%, and the industrial sector was 19.9%.

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

Custodial Credit Risk - The Foundation's investments are not exposed to custodial credit risk as defined by Statement No. 40. Securities are held by its agent in the name of Rhodes State College Foundation. Of the bank balances, $202,499 was insured by the FDIC and $260,192 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006 and 2005

Note 3 – Capital Assets

Costs:		Beginning Balance July 1, 2005	Additions	Reductions		Ending Balance June 30, 2006
Land Improvements	$	346,435	-	-	$	346,435
Buildings & Improvements		30,335,992	218,747	-		30,554,739
Infrastructure		141,383	-	-		141,383
Moveable Equipment		4,393,559	442,430	273,971		4,562,018
Library Books		867,133	48,270	-		915,403
Construction in Progress		-	-	-		-
Total Costs		36,084,502	709,447	273,971		36,519,978
Less accumulated depreciation:						
Land Improvements		82,114	24,870	-		106,984
Buildings and Improvements		4,732,629	652,532	-		5,385,161
Infrastructure		52,209	6,754	-		58,963
Moveable Equipment		2,312,481	296,889	273,971		2,335,399
Library Books		642,360	43,991	-		686,351
Total Accumulated Depreciation		7,821,793	1,025,036	273,971		8,572,858
Capital Assets, Net	$	28,262,709	(315,589)	-	$	27,947,120

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

Note 3 – Capital Assets – (continued)

Buildings and Improvements consists of the following:

	Year		Cost
Technical Education Addition/Renovations	Various	$	1,178,496
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
Keese Hall	2005		6,016,813
Campus Renovations	Various		1,461,567
Total Cost		$	30,554,739

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.

Note 4 - Accounts Receivable

The following is a summary of the accounts receivable:

		2006		2005
Tuition and Fees	$	1,626,493	$	1,404,644
Governmental		1,096,687		1,058,654
Customized Training Services		164,165		86,277
Sponsored Billing Agencies		73,361		114,725
Foundation		130,066		447
Less allowance for uncollectible accounts		(484,608)		(275,055)
Accounts Receivable, Net	$	2,606,164	$	2,389,692

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

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

	2006	2005
Payable to Venders and Suppliers	$ 526,233	$ 477,521
The Ohio State University (cost share)	41,612	159,384
Benefits Payable	214,426	268,919
Accrued Compenated Absences	760,015	731,270
Accrued Salaries and Wages	653,045	646,729
Total	$ 2,195,331	$ 2,283,823
Current portion	$ 1,435,316	$ 1,552,553
Long term portion	760,015	731,270
Total	$ 2,195,331	$ 2,283,823

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006 and 2005

Note 6 - State Support

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

In addition to the student subsidies, the State of Ohio provides the funding for construction and renovation of major plant facilities on the College campus. The funding is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission (OPFC), which in turn causes the construction and renovation of the facility by the Ohio Board of Regents. Upon completion of a construction project, the Ohio Board of Regents turns over control to the College, which capitalizes the cost.

Neither the obligation for the revenue bonds issued by the OPFC nor the annual debt service charges for principal and interest on the bonds are reflected in the College's financial statements. These are currently being funded through appropriations to the Ohio Board of Regents by the Ohio General Assembly.

The facilities are not pledged as collateral for the revenue bonds. Instead the bonds are supported by a pledge of monies in the Higher Education Bond Service Fund established in the custody of the Treasurer of State. If sufficient monies are not available from this fund, a requirement exists to assess a special student fee uniformly applicable in state-assisted institutions of higher education throughout the state.

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, 2006 and 2005 was 15,050 and 14,972, respectively.

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, 2006 and 2005, the College's liability for accrued sick leave was $413,159 and $406,545, respectively.

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, 2006 and 2005, the faculty and staff of the College had accumulated vacation leave of 15,056 and 14,122 hours, respectively. Based on this, the College recorded a liability of $346,856 and $324,725 for accumulated vacation leave at June 30, 2006 and 2005, respectively.

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.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006 and 2005

Note 8 - Defined Benefit Pension Plans

Public Employees Retirement System

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

Plan members are currently required to contribute 9.0 percent of their annual covered salary and the College is required to contribute 13.54 percent. Prior to January 1, 2006, plan members were required to contribute 8.5 percent of their annual covered salary and the College contributed 13.31 percent. The College's contributions to PERS for the fiscal years ending June 30, 2006, 2005, and 2004 were $453,489, $404,914, and $395,874, respectively, equal to the required contributions for the year.

State Teachers Retirement System

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

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

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

Note 8 - Defined Benefit Pension Plans – (continued)

State Teachers Retirement System – (continued)

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

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

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

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

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

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

Note 8 - Defined Benefit Pension Plans – (continued)

State Teachers Retirement System – (continued)

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

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

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

Contribution requirements and the contributions actually made for the fiscal years ended June 30, 2006 and 2005, were 10% of covered payroll for members and 14% for employers. The College's required contributions for pension obligations for the fiscal years ended June 30, 2006, 2005, and 2004 were $946,272, $900,734, and $877,837 respectively; 100 percent has been contributed for fiscal years 2006, 2005, and 2004.

STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's 2004 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, Ohio 43215-3371, or by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

Alternative Retirement Plan

The College offers a defined contribution plan as an alternative to participation with State mandated defined benefit plans in accordance with State law. Non-elective employee contributions and employer contributions are made to the plan in amounts equivalent to the participant's compensation which would have otherwise been contributed to the State/Public Retirement System that applies to the participant's position. The College's contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004 were $78,613, $51,091, and $58,166 respectively; 100 percent has been contributed for fiscal years 2006, 2005 and 2004.

Note 9 – Long Term Debt

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

		2006		2005
General receipts bonds	$	3,030,000	$	3,080,000
Less: Unamortized Discount on Bonds Payable		11,759		12,188
Bonds Payable, Net		3,018,241		3,067,812
Less: Current Portion		50,000		50,000
Long Term Portion	$	2,968,241	$	3,017,812

In October 2003, the College issued $3,100,000 of General Receipts Bonds, Series 2003, to pay a portion of the costs of Keese Hall. 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
2007	$	50,000	$	167,766	$	217,766
2008		55,000		165,561		220,561
2009		55,000		163,251		218,251
2010		60,000		160,836		220,836
2011		60,000		158,316		218,316
2012-2016		345,000		747,898		1,092,898
2017-2021		450,000		639,781		1,089,781
2022-2026		585,000		491,547		1,076,547
2027-2031		780,000		293,163		1,073,163
2032-2034		590,000		53,463		643,463
	$	3,030,000	$	3,041,582	$	6,071,582

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 allocated employer contributions equal to 1.0 percent for fiscal year 2006 and 4.5 percent for fiscal year 2005 of covered payroll to a health care reserve fund from which payments for health care benefits are paid. For the College, this amount equaled \$67,591 and \$289,522 for fiscal years 2006 and 2005, respectively. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.3 billion at June 30, 2005 (the date of the most recent information available). For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 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. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No.12. 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 currently 13.54% of covered payroll of which 4.0% is the portion that was used to fund health care. For fiscal year 2005, the rate was 13.31% of which 4% was used to fund health care. For the College, this amount equaled \$133,970 and \$121,687 for fiscal years 2006 and 2005, respectively. The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to PERS.

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

As of December 31, 2004 (the most recent information available), the net assets available for future Other Post Employment Benefits payments was \$10.8 billion. The number of OPERS active contributing participants was 376,109 for the year ended December 31, 2004.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006 and 2005

Note 11 - Cost Share Agreement

James A. Rhodes State College is located on the grounds owned by the State of Ohio. According to the cost sharing agreement entered into as of July 1, 1971 (and revised May 27, 1992) between The Ohio State University and the Allen County Technical Institute (later renamed Lima Technical College, and then officially changed to James A. Rhodes State College in 2002), the College reimburses the University for costs incurred in the following areas: academic instruction, library, student services, student activities, institutional support, plant operation and community educational services. The College makes quarterly payments to the University based on estimated costs using formulas as prescribed in the cost sharing agreement. Adjustments are made at year-end for variances between estimated and actual costs. The College's portion of cost sharing totaled $433,548 and $762,056 for the years ended June 30, 2006 and 2005, respectively. The College had an accounts payable to The Ohio State University for $41,612 and $159,384 at June 30, 2006 and 2005, respectively.

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

Note 12 - Risk Management

The College is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal years 2006 and 2005, the College contracted with a Commercial Insurer for property and fleet insurance, liability insurance, and various other coverages.

Major Coverages provided by this insurer is as follows at June 30, 2006:

Building and Contents - replacement cost ($10,000 deductible) $54,514,863
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)

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006 and 2005

Note 12 - Risk Management – (continued)

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

Note 13 – Component Unit Disclosures

The James A. Rhodes State College Foundation was established for charitable and educational purposes for the benefit of the College and its students. The Foundation is a not for profit organization exempt from Federal Income Taxes under Section 501c(3) of the Internal Revenue Code. The Foundation provided $143,077 in scholarships and $355,923 for College initiatives for the year ending June 30, 2006. In the fiscal year ended June 30, 2005, the Foundation provided $58,970 in scholarships and $31,046 for College initiatives.

Fair Value of Pledges Receivable

The fair value of unconditional promises to give (pledges receivable) after discounting for future cash flows and an uncollectible allowance of 3% is summarized as follows:

At June 30, 2006:

	Net Realizable Value	Discounted Value
2007	$ 935,186	$ 935,186
2008	870,691	828,456
2009	483,717	437,928
2010	483,717	416,685
2011	451,469	370,041
	$ 3,224,780	$ 2,988,296

At June 30, 2005:

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006 and 2005

Note 13 – Component Unit Disclosures – (continued)

Temporarily restricted contributions include new pledges and an adjustment for a pledge recorded in 2005 which has been revised by $104,872.

New Pledges	$	10,428
Adjustment		(104,872)
Net contributions included in the Statement of Activities	$	(94,444)

Note 14 - Operating Expenses by Natural Classification

The College's operating expenses by natural classification were as follows for the years ended June 30, 2006 and 2005:

	2006	2005
Salaries and wages	$ 11,809,031	$ 11,194,851
Employee benefits	2,923,449	2,653,622
Supplies	1,429,767	1,404,738
Travel	454,917	399,262
Information and communication	720,211	621,601
Maintenance	1,190,785	1,291,965
Utilities	570,781	360,391
Student scholarships and financial aid	1,866,107	1,701,243
Other	488,405	364,877
Depreciation	1,025,036	951,342
Equipment	464,000	-
Total Operating Expenses	$ 22,942,489	$ 20,943,892

Note 15 - Contingencies

Grants

The College received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the College. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the College at June 30, 2006 or 2005.

Litigation

The College is currently not party to any legal proceedings.

Note 16 – 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:

6/30/2007	$	96,486
6/30/2008		79,368
6/30/2009		76,389
6/30/2010		61,003
6/30/2011		35,096
TOTAL	$	348,342

Operating lease expenditures for the years ending June 30, 2006 and 2005 were $99,960 and $161,427, respectively.

Note 17 – Subsequent Event

The College has entered into contracts for the renovation of Cook Hall and Technical Education Lab. The estimated cost is approximately $576,000. The funding will come from the Department of Health and Human Services in the amount of $245,516 and the balance from College funds.

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JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
For the Year Ended June 30, 2006

Federal Grantor/ Pass-Through Grantor/ Program Titles	Pass Through Entity Number	Federal CFDA Number
U.S. Department of Education		
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		
Passed Through Ohio Department of Education:		
Vocational Education Basic Grants	VECPII-20C3-2006	84.048
Total Vocational Education Basic Grants		
Technical Preparation Grant	VETP-3ETC-2006	84.243
	VETP-3EOO-2006	84.243
	VETP-3ETA-2006	84.243
	VETP-3EVS-2006	84.243
	VETP-3ERD-2006	84.243
Total Technical Preparation Grant		
Total U.S. Department of Education		
United States Department of Agriculture (Passed-Through Ohio Department of Education)		
Child and Adult Care Food Program	N/A	10.558
Total U.S. Department of Agriculture		
Small Business Administration (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, 2006 was $5,701,115.

Receipts	Disbursements
$ 3,419,127	$ 3,419,127
132,050	132,050
112,142	112,142
3,663,319	3,663,319
65,112	65,112
65,112	65,112
166,535	166,535
53,603	53,603
73,024	73,024
28,000	28,000
40,000	40,000
361,162	361,162
4,089,593	4,089,593
30,045	30,045
30,045	30,045
95,984	95,984
95,984	95,984
$ 4,215,622	$ 4,215,622

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P.O. Box 298 • Lima, Ohio 45802 • Fax: (419) 222-8507 • E-mail: askus@esevans.com
Robert E. Wendel, CPA • Dan F. Clifford, CPA • E.S. Evans, CPA, PFS (1930-1999)

December 6, 2006

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

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

We have audited the financial statements of James A. Rhodes State College, Allen County, Ohio, (the College) as of and for the year ended June 30, 2006, and have issued our report thereon dated December 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered James A. Rhodes State College's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements being audited may occur and not be timely detected by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether James A. Rhodes State College's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under Government Auditing Standards.

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

Ernst & Young LLP

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

December 6, 2006

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

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

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about James A. Rhodes State College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on James A. Rhodes State College's compliance with those requirements.

In our opinion, James A. Rhodes State College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

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.

E S Evans and Company

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

June 30, 2006

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	 Pell Grant Program 84.063 College Work Study 84.033 Family Educ Loan 84.032 SEOG 84.007
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A:> $300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

June 30, 2006

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

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

June 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:

None

Mary Taylor, CPA
Auditor of State

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
JANUARY 23, 2007

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