



Balestra, Harr & Scherer, CPAs, Inc.

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

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JAMES A. RHODES STATE COLLEGE FOUNDATION
ALLEN COUNTY

REGULAR AUDIT

For the Year Ended June 30, 2013
Fiscal Year Audited Under GAGAS: 2013



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the James A. Rhodes State College Foundation, Allen County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2012 through June 30, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

January 15, 2014

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James A. Rhodes State College Foundation
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For the Fiscal Year Ended June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

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

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of James A. Rhodes State College Foundation, Allen County, Ohio (the Organization), a component unit of James A. Rhodes State College, which comprise the statements of financial position as of June 30, 2013 and June 30, 2012 and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Organization's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of James A. Rhodes State College Foundation, Allen County, Ohio, as of June 30, 2013 and June 30, 2012, and the respective changes in net assets and cash flows, thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2013 on our consideration of the Organization'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. That report describes the scope of our internal control testing over financial reporting and compliance and results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Piketon, Ohio
December 6, 2013

James A. Rhodes State College Foundation
Statements of Financial Position
June 30, 2013 and 2012

	2013	2012
ASSETS		
Cash and cash equivalents	\$ 447,454	\$ 463,414
Investments	1,865,104	1,689,139
Pledges receivable - Net	29,689	32,642
Loans receivable - Net	30,505	23,120
TOTAL ASSETS	\$ 2,372,752	\$ 2,208,315
LIABILITIES		
Accounts payable	68,811	79,781
TOTAL LIABILITIES	68,811	79,781
NET ASSETS		
Unrestricted	347,760	364,300
Temporarily restricted	644,924	501,686
Permanently restricted	1,311,257	1,262,548
TOTAL NET ASSETS	2,303,941	2,128,534
TOTAL LIABILITIES AND NET ASSETS	\$ 2,372,752	\$ 2,208,315

See accompanying notes to the financial statements

James A. Rhodes State College Foundation
Statements of Activities
For the Years Ended June 30, 2013 and 2012

	For the Year Ended June 30, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions, net of bad debt and loss on pledge receivable	\$ 753	\$ 44,471	\$ 48,709	\$ 93,933
Interest and dividends	1,178	55,227	-	56,405
Realized and unrealized gain on investments	1,504	139,629	-	141,133
Total Revenues	<u>3,435</u>	<u>239,327</u>	<u>48,709</u>	<u>291,471</u>
Net assets released from restrictions	96,089	(96,089)	-	-
Total Revenues, Gains and Other Support	<u>99,524</u>	<u>143,238</u>	<u>48,709</u>	<u>291,471</u>
EXPENSES				
Academic Programs	29,058	-	-	29,058
Scholarships/Grants	61,791	-	-	61,791
Management and General	19,975	-	-	19,975
Fundraising	5,240	-	-	5,240
Total Expenses	<u>116,064</u>	<u>-</u>	<u>-</u>	<u>116,064</u>
Changes in net assets	<u>(16,540)</u>	<u>143,238</u>	<u>48,709</u>	<u>175,407</u>
NET ASSETS				
Net Assets - Beginning of Year	<u>364,300</u>	<u>501,686</u>	<u>1,262,548</u>	<u>2,128,534</u>
Net Assets - End of Year	<u>\$ 347,760</u>	<u>\$ 644,924</u>	<u>\$ 1,311,257</u>	<u>\$ 2,303,941</u>

	For the Year Ended June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions, net of bad debt and loss on pledge receivable	\$ 500	\$ 72,743	\$ 114,367	\$ 187,610
Interest and dividends	2,430	38,278	-	40,708
Realized and unrealized gain on investments	(2,428)	(10,410)	-	(12,838)
Total Revenues	<u>502</u>	<u>100,611</u>	<u>114,367</u>	<u>215,480</u>
Net Assets Released from Restrictions	105,889	(105,889)	-	-
Total Revenues, Gains and Other Support	<u>106,391</u>	<u>(5,278)</u>	<u>114,367</u>	<u>215,480</u>
EXPENSES				
Academic Programs	16,068	-	-	16,068
Scholarships/Grants	84,191	-	-	84,191
Management and General	3,168	-	-	3,168
Fundraising	5,630	-	-	5,630
Total Expenses	<u>109,057</u>	<u>-</u>	<u>-</u>	<u>109,057</u>
Changes in net assets	<u>(2,666)</u>	<u>(5,278)</u>	<u>114,367</u>	<u>106,423</u>
NET ASSETS				
Net Assets - Beginning of Year	<u>366,966</u>	<u>506,964</u>	<u>1,148,181</u>	<u>2,022,111</u>
Net Assets - End of Year	<u>\$ 364,300</u>	<u>\$ 501,686</u>	<u>\$ 1,262,548</u>	<u>\$ 2,128,534</u>

See accompanying notes to the financial statements.

James A. Rhodes State College Foundation
Statements of Cash Flows
June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 175,407	\$ 106,423
Adjustments to Reconcile Change in Net Assets to Net Cash Provided/(Used) by Operating Activities		
Realized and Unrealized Gain/(Loss) on Investments	(141,133)	12,838
(Increase)/Decrease in Pledge Receivable	2,953	(9,788)
Decrease in Accounts Receivable	-	308
Increase in Loans Receivable	(7,385)	(3,282)
Increase/(Decrease) in Accounts Payable	(10,970)	29,868
Net Cash Provided by Operating Activities	18,872	136,367
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(582,433)	(1,029,440)
Sale of Investments	547,601	922,164
Net Cash Used for Investing Activities	(34,832)	(107,276)
NET INCREASE (DECREASE) IN CASH	(15,960)	29,091
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	463,414	434,323
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 447,454	\$ 463,414

See accompanying notes to the financial statements.

James A. Rhodes State College Foundation
Notes to the Financial Statements
June 30, 2013 and 2012

NOTE 1 – Organization and Purpose

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

NOTE 2 – Summary of Significant Accounting Policies

Financial Statement Presentation

The Foundation’s financial statements are prepared using the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

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

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

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

Cash and Cash Equivalents

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

James A. Rhodes State College Foundation
Notes to the Financial Statements
June 30, 2013 and 2012

The Foundation maintains cash balances at two institutions. Cash maintained in interest-bearing accounts at a bank are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2013 and 2012, \$278,555 and \$267,971, respectively, of the cash balances maintained by the Foundation were fully insured. Management believes that its cash deposits are not subject to significant risk.

Investments

Investments are reported at fair value based on quoted market prices for identical assets that are actively traded (Level 1) and quoted market prices for similar assets or identical assets that are not actively traded, or prices based on other observable inputs (Level 2). At June 30, 2013 and 2012 they consisted of common stocks and equity and bond mutual funds.

Contributions

Contributions received, which include unconditional promises to give (pledges), are recognized as revenues at the date of donation. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Management regularly evaluates the collectibility of pledges receivable and records an allowance for those deemed uncollectible.

Functional Allocation of Expenses

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

Income Taxes

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

Accounting principles generally accepted in the United States of America create a model to address uncertainty in tax positions and clarifies the account for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Under these standards tax-exempt organizations could now be required to record an obligation as the result of a tax position they have historically taken. The Foundation believes there are no such positions as of June 30, 2013 and 2012 and accordingly, no liability has been accrued. Generally the IRS may examine a tax return for three years from the date it is filed. At June 30, 2013, tax years ended June 30, 2010, 2011, and 2012 remain open for possible examination by the IRS.

James A. Rhodes State College Foundation
Notes to the Financial Statements
June 30, 2013 and 2012

Use of Estimates

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

Subsequent Events

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

Subsequent to year-end but prior to issuance of the financial statements, the Foundation expressed an interest in entering into a purchase agreement for eight parcels located in downtown Lima. As this is a bargain purchase, management believes that this transaction will equate to approximately a \$1 million donation to the foundation by the seller.

NOTE 3 – Deposits and Investments

At June 30, 2013 and 2012, the Foundation had carrying cash balances of \$447,454 and \$463,414, respectively. Investments at June 30, 2013, by major security type, were as follows:

Description	Fair Value
Common Stock	\$ 647,297
Equity Funds	377,788
Bond Funds	840,019
Total Investments	\$ 1,865,104

Investments at June 30, 2012, by major security type, were as follows:

Description	Fair Value
Common Stock	\$ 514,547
Equity Funds	325,543
Bond Funds	849,049
Total Investments	\$ 1,689,139

Risk and Uncertainties

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

James A. Rhodes State College Foundation
Notes to the Financial Statements
June 30, 2013 and 2012

NOTE 4 – Pledges Receivable

As of June 30, 2013 and 2012, donors to the Foundation have made written unconditional promises to give which were valued at fair value at the date of donation. Management has estimated an allowance for uncollectible promises based on historical experience and knowledge of the donors ability to pay. All pledges are expected to be collected within one year.

	<u>2013</u>	<u>2012</u>
Pledges Receivable	\$ 70,797	\$ 73,737
Allowance for Uncollectible Pledges	(41,108)	(41,095)
Pledges Receivable – Net	<u>\$ 29,689</u>	<u>\$ 32,642</u>

NOTE 5 – Related Party Transactions

During the fiscal year ended June 30, 2013, the Foundation distributed \$61,791 for scholarships, \$5,240 for fundraising and \$29,058 for instructional programs to the College. During the fiscal year ended June 30, 2012, the Foundation distributed \$84,191 for scholarships, \$5,630 for fundraising and \$16,068 for instructional programs to the college.

NOTE 6 – Restrictions and Limitations on Net Asset Balances

Temporarily restricted net assets are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Gifts and other donations available for:		
Schell Foundation Loan Fund	\$ 54,496	\$ 50,405
Instructional programs	146,295	158,560
Scholarships	444,133	292,721
Total gifts and other donations	<u>\$ 644,924</u>	<u>\$ 501,686</u>

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

	<u>2013</u>	<u>2012</u>
Instructional Programs	\$ 29,058	\$ 16,068
Fundraising	5,240	5,630
Scholarships	61,791	84,191
Total	<u>\$ 96,089</u>	<u>\$ 105,889</u>

James A. Rhodes State College Foundation
Notes to the Financial Statements
June 30, 2013 and 2012

Permanently restricted funds consist of endowment funds. In certain cases, the donors of these funds have restricted the use of the income from such funds for scholarships.

Permanently restricted net assets are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Scholarships	\$ 1,311,257	\$ 1,262,548
Total	<u>\$ 1,311,257</u>	<u>\$ 1,262,548</u>

NOTE 7 – Fair Value Measurements

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

The following tables present information about the Foundation's assets that are measured at fair value on a recurring basis at June 30, 2013 and June 30, 2012, and the valuation techniques used by the Foundation to determine those fair values.

- Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets.
- Fair values categorized as Level 2 inputs use other inputs that are observable, either directly or indirectly. The equity and bond funds included in Level 2 at June 30, 2013 and 2012 are valued using market techniques which include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals. The fair value may also be further adjusted for attributes of the interest held, including any restrictions or illiquidity on the disposition of the interest.
- Fair values categorized as Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset. There were no Level 3 investments at June 30, 2013 and 2012.

James A. Rhodes State College Foundation
Notes to the Financial Statements
June 30, 2013 and 2012

Fair Value Measurements at June 30, 2013

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Common stock types:			
Basic materials	\$ 58,166	-	\$ 58,166
Communications	73,017	-	73,017
Consumer	169,553	-	169,553
Energy	65,276	-	65,276
Financial	100,406	-	100,406
Health Care	29,245	-	29,245
Industrial	31,736	-	31,736
Technology	119,898	-	119,898
Total – Common stock types	<u>\$ 647,297</u>	<u>\$ -</u>	<u>\$ 647,297</u>
Equity fund types:			
Real estate investment trust	-	\$ 54,976	\$ 54,976
Small cap funds	-	16,776	16,776
Index funds	-	306,036	306,036
Total – Equity fund types	<u>\$ -</u>	<u>\$ 377,788</u>	<u>\$ 377,788</u>
Bond fund types:			
Other bond funds	-	\$ 840,019	\$ 840,019
Total – Bond fund types	<u>\$ -</u>	<u>\$ 840,019</u>	<u>\$ 840,019</u>
Total – Investments	<u>\$ 647,297</u>	<u>\$ 1,217,807</u>	<u>\$ 1,865,104</u>

James A. Rhodes State College Foundation
Notes to the Financial Statements
June 30, 2013 and 2012

Fair Value Measurements at June 30, 2012

Description	Level 1	Level 2	Total
Common stock types:			
Basic materials	\$ 80,342	-	\$ 80,342
Communications	51,679	-	51,679
Consumer	126,504	-	126,504
Energy	60,198	-	60,198
Financial	67,443	-	67,443
Industrial	22,336	-	22,336
Technology	106,045	-	106,045
Total – Common stock types	\$ 514,547	\$ -	\$ 514,547
Equity fund types:			
Real estate investment trust	-	\$ 52,344	\$ 52,344
Small cap funds	-	14,456	14,456
Index funds	-	258,743	258,743
Total – Equity fund types	\$ -	\$ 325,543	\$ 325,543
Bond fund types:			
Other bond funds	-	\$ 849,049	\$ 849,049
Total – Bond fund types	\$ -	\$ 849,049	\$ 849,049
Total – Investments	\$ 514,547	\$ 1,174,592	\$ 1,689,139

NOTE 8 –Endowments

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

James A. Rhodes State College Foundation
Notes to the Financial Statements
June 30, 2013 and 2012

Interpretation of Relevant Law

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

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

Endowment Net Asset Composition by Type of Fund as of June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$ (326)	\$ 432,430	\$ 1,311,257	\$ 1,743,361
Total Funds	<u>\$ (326)</u>	<u>\$ 432,430</u>	<u>\$ 1,311,257</u>	<u>\$ 1,743,361</u>

James A. Rhodes State College Foundation
Notes to the Financial Statements
June 30, 2013 and 2012

Changes in Endowment Net Assets for the Fiscal Year End June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets, beginning of year	\$ (1,308)	\$ 307,274	\$ 1,300,819	\$ 1,606,785
Contributions, net of allowance	0	1,000	10,438	11,438
Investment income	183	52,073	0	52,256
Investment expenses	(35)	(9,858)	0	(9,893)
Realized and unrealized gains and losses	1,084	131,651	0	132,735
Appropriation of endowment assets for expenditures	(250)	(49,710)		(49,960)
Net Assets, end of year	<u>\$ (326)</u>	<u>\$ 432,430</u>	<u>\$ 1,311,257</u>	<u>\$ 1,743,361</u>

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

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

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

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

Endowment Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are in excess of related temporarily restricted amounts are reported in unrestricted net assets. Such amounts totaled \$326 and \$1,308 at June 30, 2013 and 2012, respectively. These deficiencies resulted from unfavorable market fluctuations.

James A. Rhodes State College Foundation
Notes to the Financial Statements
June 30, 2013 and 2012

Return Objectives and Risk Parameters

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

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

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

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

James A. Rhodes State College Foundation
Notes to the Financial Statements
June 30, 2013 and 2012

The minimum loan is \$500 and the maximum loan is \$2,500. Students are to repay these loans at no interest beginning six months after graduation. The Foundation collected \$7,707 and \$13,214 in student repayments in fiscal years 2013 and 2012, respectively. The Foundation does not pursue collections on these loans.

NOTE 10 – Lima Community Foundation

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

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

	<u>2013</u>	<u>2012</u>
John J. and Martha M. Hudson Scholarship Fund	\$ 7,743	\$ 7,314
James J. Countryman Scholarship Fund	36,970	34,933
Thomas R. and Gloria P. Leech Scholarship Fund	14,722	13,952

Scholarship awards made from each of these funds for the fiscal years 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
James J. Countryman Scholarship Fund	\$ 1,500	\$ 1,000
Thomas R. and Gloria P. Leech Scholarship Fund	550	350

The Lima Community Foundation manages all three funds according to their investment policy. As such, there is no balance recorded on the financial statements of the Foundation. Scholarship money transferred from the Lima Community Foundation are recognized as revenue when awarded by the Community Foundation.



Balestra, Harr & Scherer, CPAs, Inc.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

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

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of James A. Rhodes State College Foundation, Allen County, (the Organization), a component unit of James A. Rhodes State College, as of and for the years ended June 30, 2013 and June 30, 2012, and the related notes to the financial statements, and have issued our report thereon dated December 6, 2013.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Organization's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Organization's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Organization'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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*.

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Piketon, Ohio
December 6, 2013



Dave Yost • Auditor of State

JAMES A. RHODES STATE COLLEGE FOUNDATION

ALLEN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 28, 2014**