



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, 2016
Fiscal Year Audited Under GAGAS: 2016



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, 2015 through June 30, 2016. 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 20, 2017

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James A. Rhodes State College Foundation
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For the Fiscal Year Ended June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

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

To the Board of Trustees:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of James A. Rhodes State College Foundation, Allen County, Ohio (the Organization), a component unit of James A. Rhodes State College, as of and for the years ended June 30, 2016 and June 30, 2015, and the related notes to the consolidated financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for preparing and fairly presenting these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit requires obtaining evidence about consolidated financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material consolidated 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 consolidated 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 such 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 consolidated financial statement presentation.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of James A. Rhodes State College Foundation, Allen County, Ohio, as of June 30, 2016 and June 30, 2015, and the respective changes in its consolidated financial position and its cash flows 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 23, 2016 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 23, 2016

James A. Rhodes State College Foundation
Consolidated Statements of Financial Position
June 30, 2016 and 2015

	2016	2015
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 516,585	\$ 780,848
Investments	2,429,966	2,034,806
Pledges receivable - Net	102,447	109,612
Loans receivable - Net	17,304	21,084
Total Current Assets:	3,066,302	2,946,350
Noncurrent Assets:		
Property held for College	593,361	302,300
TOTAL ASSETS	\$ 3,659,663	\$ 3,248,650
LIABILITIES		
Accounts payable	131,142	104,315
Due to James A Rhodes State College	300,000	-
Line of Credit	104,690	-
TOTAL LIABILITIES	535,832	104,315
NET ASSETS		
Unrestricted	581,135	547,897
Temporarily restricted	886,693	1,032,808
Permanently restricted	1,656,003	1,563,630
TOTAL NET ASSETS	3,123,831	3,144,335
TOTAL LIABILITIES AND NET ASSETS	\$ 3,659,663	\$ 3,248,650

See accompanying notes to the consolidated financial statements

James A. Rhodes State College Foundation
Consolidated Statements of Activities
For the Years Ended June 30, 2016 and 2015

	For the Year Ended June 30, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions, net of bad debt and loss on pledge receivable	\$ 51,776	\$ 21,207	\$ 92,373	\$ 165,356
Interest and dividends	7,495	53,248	-	60,743
Realized and unrealized gain on investments	(3,163)	(52,056)	-	(55,219)
Total Revenues	56,108	22,399	92,373	170,880
Net assets released from restrictions	168,514	(168,514)	-	-
Total Revenues, Gains and Other Support	224,622	(146,115)	92,373	170,880
EXPENSES				
Academic Programs	8,152	-	-	8,152
Scholarships/Grants	154,272	-	-	154,272
Management and General	22,870	-	-	22,870
Fundraising	6,090	-	-	6,090
Total Expenses	191,384	-	-	191,384
Changes in net assets	33,238	(146,115)	92,373	(20,504)
NET ASSETS				
Net Assets - Beginning of Year	547,897	1,032,808	1,563,630	3,144,335
Net Assets - End of Year	\$ 581,135	\$ 886,693	\$ 1,656,003	\$ 3,123,831

	For the Year Ended June 30, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions, net of bad debt and loss on pledge receivable	\$ 272,298	\$ 91,035	\$ 105,312	\$ 468,645
Interest and dividends	5,192	54,754	-	59,946
Realized and unrealized gain on investments	(1,192)	58,211	-	57,019
Total Revenues	276,298	204,000	105,312	585,610
Net Assets Released from Restrictions	124,147	(124,147)	-	-
Total Revenues, Gains and Other Support	400,445	79,853	105,312	585,610
EXPENSES				
Academic Programs	17,034	-	-	17,034
Scholarships/Grants	102,140	-	-	102,140
Management and General	207,824	-	-	207,824
Fundraising	4,973	-	-	4,973
Total Expenses	331,971	-	-	331,971
Changes in net assets	68,474	79,853	105,312	253,639
NET ASSETS				
Net Assets - Beginning of Year	479,423	952,955	1,458,318	2,890,696
Net Assets - End of Year	\$ 547,897	\$ 1,032,808	\$ 1,563,630	\$ 3,144,335

See accompanying notes to the consolidated financial statements.

James A. Rhodes State College Foundation
Consolidated Statements of Cash Flows
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (20,504)	\$ 253,639
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Excess of fair market value over cash paid for properties held for College	(39,500)	(75,000)
Realized and Unrealized Gain/(Loss) on Investments	55,219	(57,018)
(Increase)/Decrease in Pledge Receivable	7,165	(73,621)
(Increase)/Decrease in Loans Receivable	3,780	(3,889)
Increase/(Decrease) in Accounts Payable	<u>26,827</u>	<u>7,751</u>
Net Cash Provided by Operating Activities	<u>32,987</u>	<u>51,862</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Properties Held for College	(251,561)	-
Purchase of Investments	(1,299,076)	(1,404,407)
Sale of Investments	<u>848,697</u>	<u>1,577,748</u>
Net Cash Provided by (Used for) Investing Activities	(701,940)	173,341
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceed from Notes	<u>404,690</u>	<u>-</u>
Net Cash Provided by (Used for) Financing Activities	404,690	-
NET INCREASE IN CASH	(264,263)	225,203
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>780,848</u>	<u>555,645</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 516,585</u>	<u>\$ 780,848</u>
NONCASH TRANSACTIONS:		
Excess of fair market value over cash paid for properties held for College	\$ (39,500)	\$ (75,000)
Donated services and facilities	\$ -	\$ 180,853

See accompanying notes to the consolidated financial statements.

James A. Rhodes State College Foundation
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

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.

During 2014, the Foundation created a limited liability company to purchase, sell or lease property within the City of Lima for the College. The limited liability company is the Rhodes State College Foundation Lima LLC (“RSCF Lima LLC”). The RSCF Lima LLC is treated as a disregarded entity for federal income tax purposes. The Foundation is the sole member of RSCF Lima LLC.

NOTE 2 – Summary of Significant Accounting Policies

Financial Statement Presentation

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

James A. Rhodes State College Foundation
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes on net assets.

Cash and Cash Equivalents

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

The Foundation maintains cash balances at two institutions. The Federal Deposit Insurance Corporation (FDIC) insures cash deposits maintained in interest-bearing accounts at a bank up to \$250,000. At June 30, 2016 and 2015, cash balances of \$179,072 and \$473,086, respectively, of the cash balances maintained by the Foundation were fully insured. RSCF Lima, LLC maintains cash balances at two institutions. At June 30, 2016 and 2015, RSCF Lima, LLC, respectively, maintained cash balances of \$257,752 and \$17,231. 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, 2016 and 2015, investments consisted of common stocks and equity and bond mutual funds.

Contributions

Contributions received, which include unconditional promises to give (pledges), are recognized as revenue 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 collectability of pledges receivable and records an allowance for those deemed uncollectible.

Functional Allocation of Expenses

Total expenses consisted of expenses relating to program services and management and general and fundraising activities. Costs are reported in the various programs and support services on an actual basis, where available, or allocated based upon reasonable methods.

Income Taxes

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

Generally Accepted Accounting Principles create a model to address uncertainty in tax positions and clarifies the account for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements.

James A. Rhodes State College Foundation
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

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 consolidated financial statements were issued.

NOTE 3 –Investments

Fair Value of Investments at June 30, 2016 and 2015, by major security type, were as follows:

<u>Description</u>	<u>2016</u>	<u>2015</u>
Common Stock	\$ 1,368,296	\$ 1,115,324
Equity Funds	394,330	535,074
Bond Funds	667,340	384,408
Total Investments	<u>\$ 2,429,966</u>	<u>\$ 2,034,806</u>

Risk and Uncertainties

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

NOTE 4 –Pledges Receivable

As of June 30, 2016 and 2015, 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>2016</u>	<u>2015</u>
Pledges Receivable	\$ 143,555	\$ 150,720
Allowance for Uncollectible Pledges	(41,108)	(41,108)
Pledges Receivable – Net	<u>\$ 102,447</u>	<u>\$ 109,612</u>

James A. Rhodes State College Foundation
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

NOTE 5 – Related Party Transactions

During the fiscal year ended June 30, 2016, the Foundation distributed \$154,272 for scholarships, \$6,090 for fundraising, and \$8,152 for instructional programs to the College. During the fiscal year ended June 30, 2015, the foundation distributed \$102,140 for scholarships, \$4,973 for fundraising, and \$17,034 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>2016</u>	<u>2015</u>
Gifts and other donations available for:		
Schell Foundation Loan Fund	\$ 39,098	\$ 39,098
Instructional programs	377,716	283,589
Scholarships	469,879	710,121
Total gifts and other donations	<u>\$ 886,693</u>	<u>\$ 1,032,808</u>

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

	<u>2016</u>	<u>2015</u>
Instructional Programs	\$ 8,152	\$ 17,034
Fundraising	6,090	4,973
Scholarships	154,272	102,140
Total	<u>\$ 168,514</u>	<u>\$ 124,147</u>

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

Permanently restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Scholarships	\$ 1,656,003	\$ 1,563,630
Total	<u>\$ 1,656,003</u>	<u>\$ 1,563,630</u>

James A. Rhodes State College Foundation
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

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 presents information about the Foundation's assets that are measured at fair value on a recurring basis at June 30, 2016 and June 30, 2015, 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 for substantially the full term of the asset or liability. The equity and bond funds included in Level 2 at June 30, 2016 and 2015 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.
- 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, 2016 and 2015.

The Foundation's recognizes transfers between levels as the end of the reporting period.

James A. Rhodes State College Foundation
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Fair Value Measurements at June 30, 2016

Description	Level 1	Level 2	Total
Common Stock Types:			
Basic Materials	\$ 33,465	\$ -	\$ 33,465
Communications	148,312	-	148,312
Consumer	506,117	-	506,117
Energy	37,776	-	37,776
Financial	145,444	-	145,444
Health Care	208,202	-	208,202
Industrial	144,353	-	144,353
Technology	106,752	-	106,752
Technology	37,875	-	37,875
Total-Common Stock Types	\$ 1,368,296	\$ -	\$ 1,368,296
Equity Fund Types:			
Real Estate Investment Trust	\$ -	\$ 75,813	\$ 75,813
Small Cap Funds	-	21,717	21,717
Index Funds	-	296,800	296,800
Total-Equity Fund Types	\$ -	\$ 394,330	\$ 394,330
Bond Fund Types:			
Other Bond Funds	\$ -	\$ 667,340	\$ 667,340
Total-Bond Fund Types	\$ -	\$ 667,340	\$ 667,340
Total - Investments	\$ 1,368,296	\$ 1,061,670	\$ 2,429,966

James A. Rhodes State College Foundation
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Fair Value Measurements at June 30, 2015

Description	Level 1	Level 2	Total
Common Stock Types:			
Basic Materials	\$ 31,245	\$ -	\$ 31,245
Communications	181,442	-	181,442
Consumer	352,282	-	352,282
Energy	14,484	-	14,484
Financial	115,211	-	115,211
Health Care	154,308	-	154,308
Industrial	179,437	-	179,437
Technology	86,915	-	86,915
Total-Common Stock Types	<u>\$ 1,115,324</u>	<u>\$ -</u>	<u>\$ 1,115,324</u>
Equity Fund Types:			
Real Estate Investment Trust	\$ -	\$ 63,860	\$ 63,860
Small Cap Funds	-	25,510	25,510
Index Funds	-	445,704	445,704
Total-Equity Fund Types	<u>\$ -</u>	<u>\$ 535,074</u>	<u>\$ 535,074</u>
Bond Fund Types:			
Other Bond Funds	\$ -	\$ 384,408	\$ 384,408
Total-Bond Fund Types	<u>\$ -</u>	<u>\$ 384,408</u>	<u>\$ 384,408</u>
Total - Investments	<u>\$ 1,115,324</u>	<u>\$ 919,482</u>	<u>\$ 2,034,806</u>

James A. Rhodes State College Foundation
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

NOTE 8 –Endowments

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

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the Ohio Uniform Prudent Management of Institutional Funds Act (OPMIFA) 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 OPMIFA. In accordance with OPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

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

James A. Rhodes State College Foundation
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Composition and Changes in Donor Restricted Endowment Net Assets fo Fiscal Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets, beginning of year	\$ (546)	\$ 684,419	\$ 1,563,630	\$ 2,247,503
Contributions	-	-	92,373	92,373
Investment Income	110	50,647	-	50,757
Realized and unrealized gains and losses	(67)	(49,270)	-	(49,337)
Investment Expenses	(32)	(14,064)	-	(14,096)
Appropriations of endowment assets for expenditures	(200)	(116,607)	-	(116,807)
Net Assets, end of year	<u>\$ (735)</u>	<u>\$ 555,125</u>	<u>\$ 1,656,003</u>	<u>\$ 2,210,393</u>

Composition and Changes in Donor Restricted Endowment Net Assets fo Fiscal Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets, beginning of year	\$ -	\$ 679,865	\$ 1,458,318	\$ 2,138,183
Contributions	-	6,000	105,312	111,312
Investment Income	77	53,029	-	53,106
Realized and unrealized gains and losses	105	55,794	-	55,899
Investment Expenses	(28)	(13,817)	-	(13,845)
Appropriations of endowment assets for expenditures	(700)	(96,452)	-	(97,152)
Net Assets, end of year	<u>\$ (546)</u>	<u>\$ 684,419</u>	<u>\$ 1,563,630</u>	<u>\$ 2,247,503</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 \$735 at June 30, 2016. These deficiencies resulted from unfavorable market fluctuations.

James A. Rhodes State College Foundation
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

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 the 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 – Programmatic Investments – 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 Consolidated Financial Statements
June 30, 2016 and 2015

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 \$0 and \$4,142 in student repayments in fiscal years 2016 and 2015, respectively. The Foundation does not pursue collections on these loans. Because these are programmatic investments the amounts are classified as operating in the statement of cash flows.

Loans Receivable is recorded net of estimated uncollectible amounts. The Foundation regularly evaluates its loans receivable for collectability and provides for an allowance for bad debts when deemed necessary.

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>2016</u>	<u>2015</u>
John J. and Martha M. Hudson Scholarship Fund	\$ 8,650	\$ 8,858
James J. Countryman Scholarship Fund	\$ 39,093	\$ 39,908
Thomas R. and Gloria P. Leech Scholarship Fund	\$ 16,638	\$ 16,559

Scholarship awards made from each of these funds for the fiscal years 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
James J. Countryman Scholarship Fund	\$ 1,590	\$ 1,110
Thomas R. and Gloria P. Leech Scholarship Fund	\$ 642	\$ 295

The Lima Community Foundation owns all three funds and manages them according to their investment policy. Since the donors contributed the amounts to the Community Foundation and the Community Foundation has variance power, these amounts are not recorded on the financial statements of the Foundation. Scholarship money transferred from the Lima Community Foundation is recognized as revenue when awarded by the Community Foundation.

James A. Rhodes State College Foundation
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

NOTE 11 – RSCF LIMA, LLC

On November 13, 2013, the formation of RSCF LIMA, LLC was done for the purpose of purchasing, selling or leasing real estate to the College. RSCF Lima, LLC is operated by a Board of Directors and Officers. The LLC's initial project will be to develop the Rhodes State College Center for Health Sciences Education and Innovation in downtown Lima. In January, 2014, the Board of Directors authorized the LLC to purchase several parcels of downtown properties comprised of land and buildings owned by Tri-C Enterprises and pay any and all expenses and fees related to the completion of this acquisition. There are additional properties yet to be acquired. The purchased properties are reflected in the Statements of Financial Positions as Property Held for the College.



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
Allen County
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, 2016 and June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated December 23, 2016.

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*.

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 23, 2016

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Dave Yost • Auditor of State

JAMES A RHODES STATE COLLEGE FOUNDATION

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 2, 2017**