SELF-STUDY/

APPENDIX H

Managment's Discussion And Analysis Of The College's Financial Performance During The FY Ending June 30, 2007 And 2006

RHODES STATE COLLEGE

James A. Rhodes State College
Management's Discussion and Analysis
June 30, 2007 and 2006

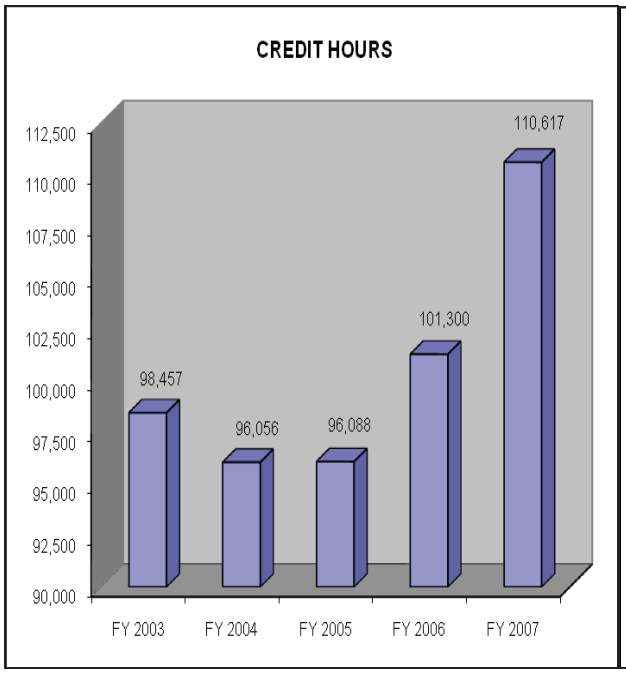
This section of James A. Rhodes State College annual financial report presents management's discussion and analysis of the College's financial performance during the fiscal years that ended June 30, 2007 and 2006. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and notes.

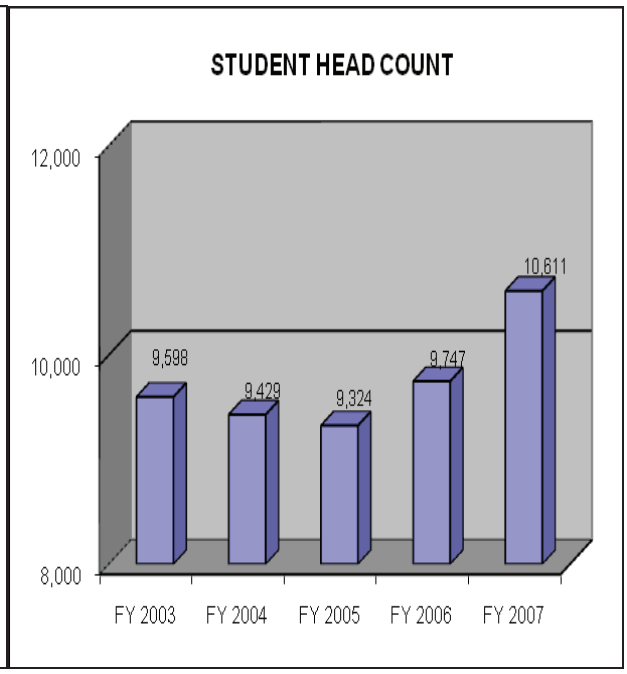
THE COLLEGE

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 head count over the last five years.





James A. Rhodes State College
Management's Discussion and Analysis
June 30, 2007 and 2006

FINANCIAL HIGHLIGHTS

In FY2007, the College provided over 110,000 credit hours and this was a 9.2% increase over FY2006. Since FY2001, the College has taught 25,715 additional credit hours, a 30.3% increase.

Unrestricted net assets increased by $ 1,104,993 in FY2007 and $503,694 in FY2006. The College has eight 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 FY2007, operating revenues increased by $1,963,704 or 13.8%; net non-operating revenues increased $140,472 or 1.7%; while operating expenses increased by $680,838 or 2.9%. In FY2006, 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%.

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.

James A. Rhodes State College
Management's Discussion and Analysis
June 30, 2007 and 2006

CONDENSED FINANCIAL INFORMATION
STATEMENTS OF NET ASSETS
(in thousands)

ASSETS		2007	2006	Difference	2005	Difference
	Current Assets	10,435	9,671	764	9,789	-118
	Noncurrent, Capital Assets, net	28,587	27,947	640	28,262	-315
	Total Assets	39,022	37,618	1,404	38,051	-433
LIABILITIES						
	Current Liabilities	3,030	2,470	560	2,443	27
	Noncurrent Liabilities	3,722	3,728	-6	3,749	-21
	Total Liabilities	6,752	6,198	554	6,192	6
NET ASSETS						
	Invested in capital assets, net of related debt	24,423	24,678	-255	25,621	-943
	Restricted, Expendable	9	9	0	9	0
	Restricted, Nonexpendable	0	0	0	0	0
	Unrestricted	7,838	6,733	1,105	6,229	504
	Total Net Assets	32,270	31,420	850	31,859	-439
	Total Liabilities and Net Assets	39,022	37,618	1,404	38,051	-433

Assets: As of June 30, 2007, the College's total assets were $39.0 million compared to $37.6 million in fiscal year 2006 and $38.1 million in fiscal year 2005. Capital assets, net of accumulated depreciation are the college's largest asset. This represents 73.3%, 74.3% and 74.3 % of total assets for fiscal years 2007, 2006 and 2005 respectively. Cash and cash equivalents are the second largest asset category at $6.7 million, $6.7 million and $7.2 million for fiscal years 2007, 2006, and 2005 respectively. This represents 17.0%, 17.8% and 18.8% of the total assets for fiscal years 2007, 2006 and 2005 respectively.

Liabilities: As of June 30, 2007, the College's liabilities totaled approximately $6.8 million compared to $6.2 million in fiscal year 2006 and $6.2 million in fiscal year 2005. 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 43.2%, 47.9% and 48.7% of total liabilities for fiscal years 2007, 2006 and 2005 respectively. The general receipts bonds are payable over thirty years with final payment due in 2033.

Net Assets: Net Assets as of June 30, 2007 were $32.3 million compared to $31.4 million in fiscal year 2006 and $31.8 million in fiscal year 2005. Invested in capital assets, net of related debt represents the largest portion of net assets at 75.7%, 78.5% and 80.4% of total net assets for fiscal years 2007, 2006 and 2005 respectively. Unrestricted net assets increased $1.1 million, $504 thousand and $698 thousand for fiscal years 2007, 2006 and 2005 respectively. This is an increase of 16.4%, 8.1% and 12.6% for fiscal years 2007, 2006 and 2005 respectively.

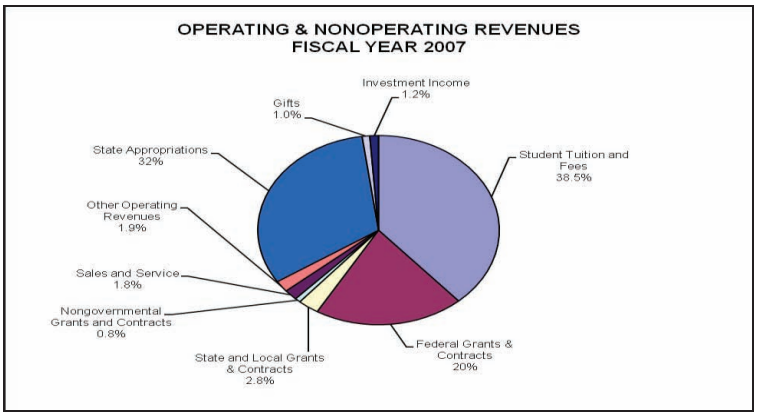
James A. Rhodes State College
Management's Discussion and Analysis
June 30, 2007 and 2006

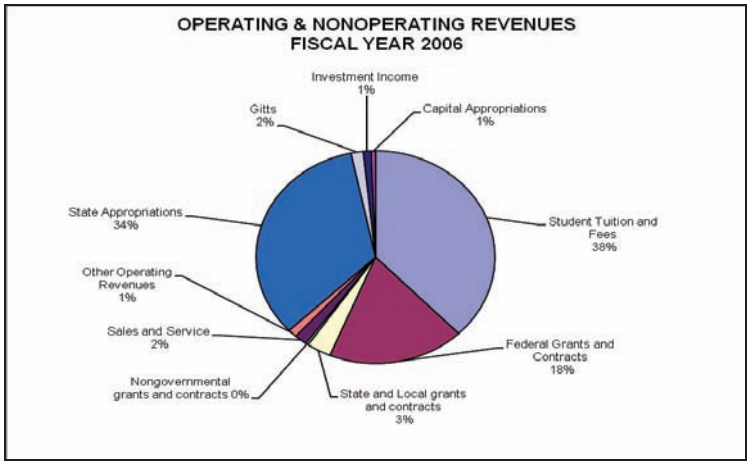
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
(in thousands)

OPERATING REVENUES	2007	2006	Difference	2005	Difference
Student tuition and fees, net	9,483	8,566	917	7,705	861
Federal grants and contracts	4,928	4,186	742	4,390	(204)
State grants and contracts	696	753	(57)	81	672
Non-Governmental grants and contracts	184	77	107	0	77
Sales and services	449	393	56	387	6
Other operating revenues	481	282	199	289	(7)
Total Operating Revenues	16,221	14,257	1,964	12,852	1,405
OPERATING EXPENSES					
Educational and General	22,605	21,917	688	19,992	1,925
Depreciation	1,018	1,025	(7)	951	74
Total Operating Expenses	23,623	22,942	681	20,943	1,999
Operating Income (Loss)	(7,402)	(8,685)	1,283	(8,091)	(594)
NONOPERATING REVENUES (EXPENSES)					
State Appropriations	7,886	7,668	218	7,958	(290)
Gifts	248	376	(128)	57	319
Investment Income	286	238	48	103	135
Interest on capital asset-related debt	(168)	(170)	2	(86)	(84)
Net Non-Operating Revenues (expenses)	8,252	8,112	140	8,032	80
Income (Loss) before other revenues	850	(573)	1,423	(59)	(514)
Capital Appropriations	0	134	(134)	1,155	(1,021)
Total other revenues	0	134	(134)	1,155	(1,021)
Increase (decrease) in Net Assets	850	(439)	1,289	1,096	(1,535)
Net Assets, Beginning of Year	31,420	31,859	(439)	30,763	1,096
Net Assets, End of Year	32,270	31,420	850	31,859	(31,009)

James A. Rhodes State College
Management's Discussion and Analysis
June 30, 2007 and 2006

The following is a graphic illustration of revenues by source for the years ended June 30, 2007 and 2006:

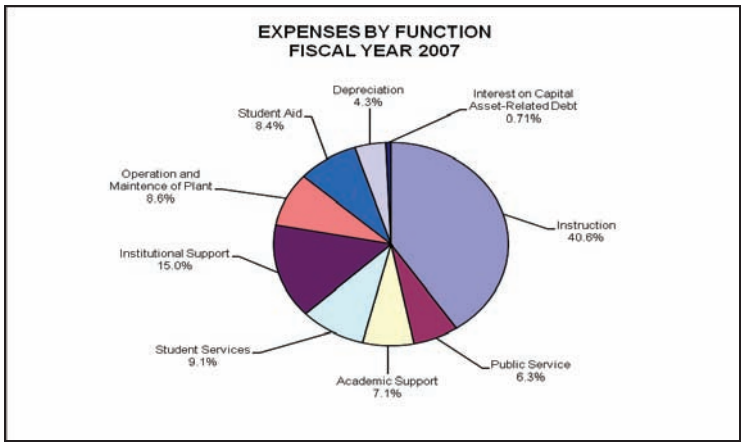


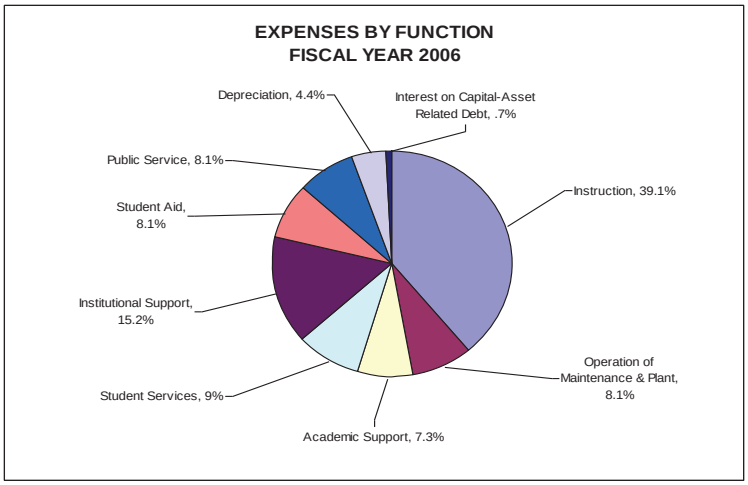


The largest sources of the College's revenues (over 70%) come from Student Tuition & Fees (net of scholarship allowance) and State Appropriations. Student tuition and fees, net were $9.5 million and $8.6 million for fiscal years 2007 and 2006 respectively. State appropriations were $7.9 million and $7.6 million for fiscal years 2007 and 2006 respectively. Federal grants and contracts were $4.9 million and $4.2 million for fiscal years 2007 and 2006 respectively. Total operating and non-operating revenues were $24.6 and $22.7 million for fiscal years 2007 and 2006 respectively.

James A. Rhodes State College
Management's Discussion and Analysis
June 30, 2007 and 2006

The following is a graphic illustration of expenses by function for the years ended June 30, 2007 and 2006:

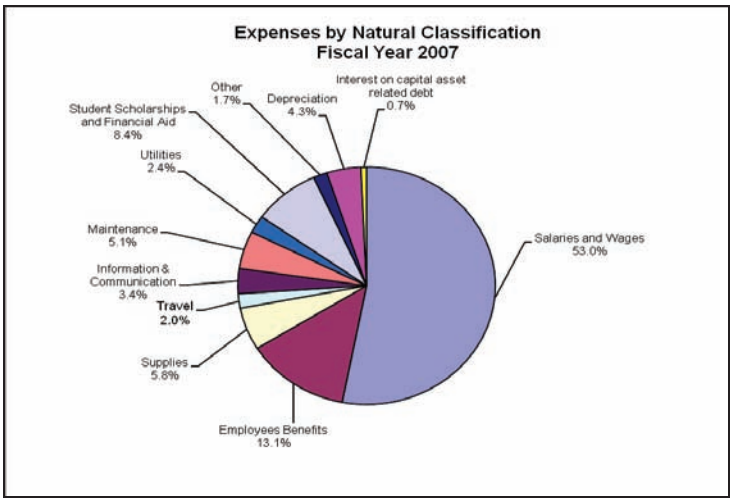


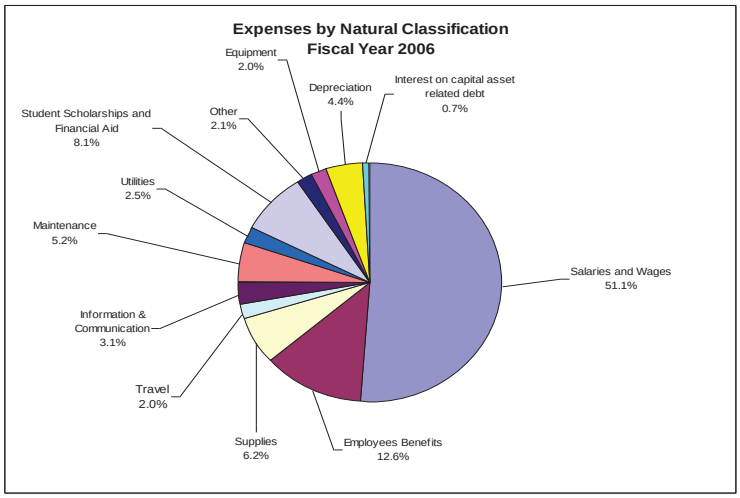


Instructional expenditures are the largest expense for the College. Instructional expenses were $9.7 million and $9.0 million for fiscal years 2007 and 2006 respectively. The majority of the increase was in the Nursing program. Public service expenses were $1.5 million and $1.9 million respectively. The decrease in public service was related to the award of an equipment grant from the Ohio Department of Development in fiscal year 2006. Academic support expenses were approximately the same for both years at $1.7 million. Student services expenses were $2.2 million and $2.0 million respectively. Institutional support expenses were $3.6 million and $3.5 million respectively. Operation and maintenance of plant expenses were $2.0 million and $1.9 million respectively. Student aid expenses were $2.0 million and $1.9 million respectively. Total operating and non-operating expenses were $23.8 million and $23.1 million respectively.

James A. Rhodes State College
Management's Discussion and Analysis
June 30, 2007 and 2006

The following is a graphic illustration of expenses by natural classification for the years ended June 30, 2007 and 2006:





Salaries and wages were the largest expense for the College at 53.0% and 51.1% for fiscal years 2007 and 2006 respectively. Wages and benefits accounted for 63.1% and 63.7% of the College's total expenses respectively. The next largest expense was student scholarships.

Salaries and wages were $12.6 million and $11.8 million respectively. Employee benefits were $3.1 million and $2.9 million respectively. Student scholarships were $2.0 million and $1.9 million respectively. Supplies were $1.4 million for both years. Maintenance was $1.0 million and $1.2 million respectively. Total operating and non-operating expenses were $23.8 million and $23.1 million for fiscal years 2007 and 2006 respectively.

James A. Rhodes State College
Management's Discussion and Analysis
June 30, 2007 and 2006

STATEMENTS OF CASH FLOWS
(in thousands)

Net cash provided (used by):	2007	2006	Difference	2005	Difference
Operating Activities	-6,674	-7,676	1,002	-7,200	-476
Non-capital financing activities	8,187	7,915	272	8,226	-311
Capital financing activities	-1,845	-946	-899	-2,264	1,318
Investing activities	286	238	48	103	135
Net increase (decrease) in cash	-46	-469	423	-1,135	666
Cash, beginning of year	6,699	7,168	-469	8,303	-1,135
Cash, end of year	6,653	6,699	-46	7,168	-469

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 $9.2, $9.1 and $7.8 million in fiscal years 2007, 2006, and 2005 respectively. Grants and contracts generated cash of $5.3, $4.6 and $4.4 million in fiscal years 2007, 2006 and 2005 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 $12.5, $11.8 and $11.1 million in fiscal years 2007, 2006, and 2005 respectively. Payments for supplies and services amounted to $4.2, $4.8 and $4.0 million in fiscal years 2007, 2006, and 2005 respectively. Payments for benefits amounted to $2.9, $3.0 and $2.8 million in fiscal years 2007, 2006, and 2005 respectively. State appropriations are the primary source of cash for non-capital financing activities. The College received $7.9, $7.7 and $8.0 million in state appropriations in fiscal years 2007, 2006, and 2005 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 $1.6, $0.7 and $2.1 million for capital assets in fiscal years 2007, 2006, and 2005 respectively.

James A. Rhodes State College
Management's Discussion and Analysis
June 30, 2007 and 2006

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 was 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 $38.5, $36.5 and $36.1 million for fiscal years 2007, 2006 and 2005 respectively. The accumulated depreciation was $9.5, $8.5 and $7.8 million for fiscal years 2007, 2006 and 2005 respectively. Depreciation expense for the years ended June 30, 2007, 2006 and 2005 were $1,017,932, $1,025,036 and $951,342 respectively. A summary of net capital assets for the years ended June 30 is as follows:

	2007	2006	2005
Land Improvements	$ 214,580.71	$ 239,451.07	$ 264,321.43
Buildings and Improvements	25,165,517.53	25,169,578.30	25,603,362.75
Infrastructure	76,327.58	82,418.44	89,172.86
Moveable Equipment	2,902,509.66	2,226,619.57	2,081,077.77
Library Books	228,273.55	229,052.83	224,774.36
Total Capital Assets, net	$28,587,209.03	$27,947,120.21	$28,262,709.17

During fiscal year 2007, the College purchased $970,344.96 of moveable equipment, $643,963.61 in building improvements, and $43,712.53 of library books. During fiscal year 2006, the College purchased $442,430.49 of moveable equipment, $218,747.11 in building improvements, and $48,269.82 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 thirty (30) years with principal and interest due semi-annually. This will impact cash flows by approximately $220,000 each year.

James A. Rhodes State College
Management's Discussion and Analysis
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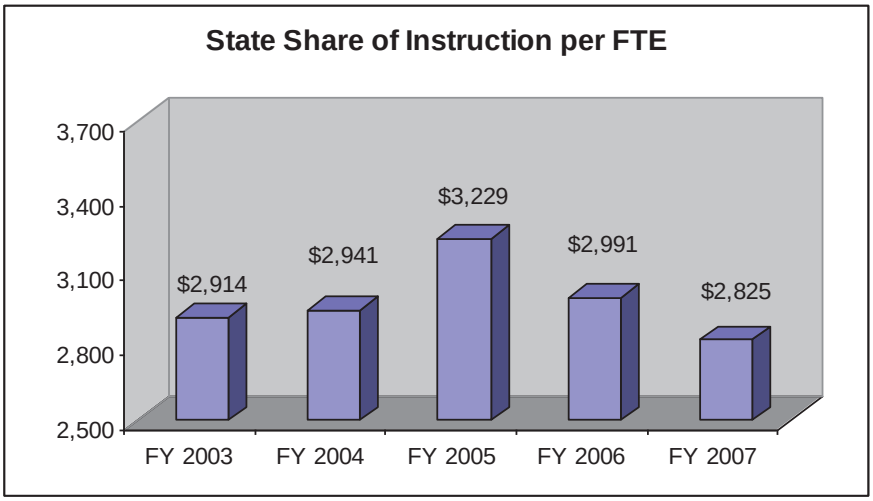
State Appropriations per Dollar of Gross Tuition

Fiscal Year	Gross Tuition	State Appropriations	Net State Appropriations per Dollar of Gross Tuition
2007	$11,793,160	$ 7,885,574	0.67
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 2007 that figure has dropped to $0.67. This is a 28.0% 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 forty-five (45). The state share of instruction per FTE in 2007 is still below the funding level of 2003 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.



James A. Rhodes State College
Management's Discussion and Analysis
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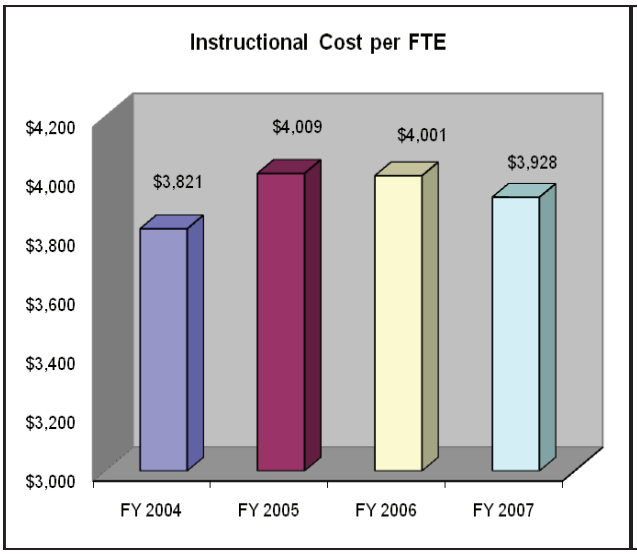
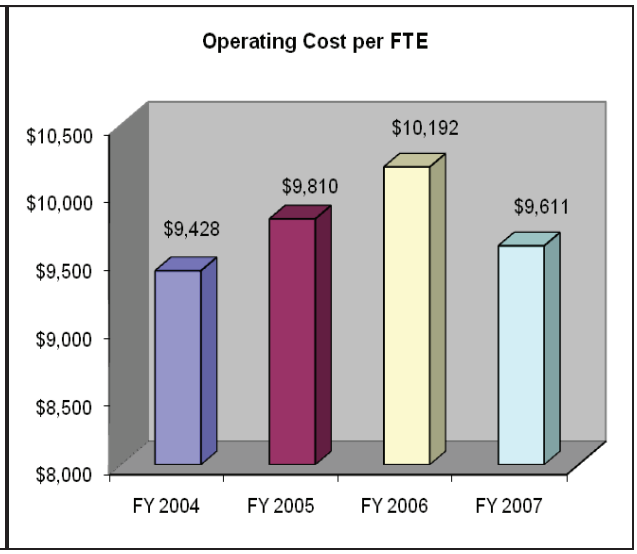
Operating and Instructional Expenses per Annual Student FTE

	2007	2006	2005	2004
Total Operating Expenses	$ 23,623,328	$ 22,942,490	$ 20,943,892	$ 20,128,918
Instructional Expenses	$ 9,655,652	$ 9,005,725	$ 8,559,215	$ 8,157,321
Annual Student FTE Enrollment	2,458	2,251	2,135	2,135

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 1.8% in FY2007 and decreased by 0.2% in FY2006. Operating expenses per FTE decreased by 5.7% in FY2007 and increased by 3.9% in FY2006.





James A. Rhodes State College
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FACTORS IMPACTING FUTURE PERIODS

James A. Rhodes State College is committed to its mission-driven purpose 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 College joined the Higher Education Compact by promising to not raise tuition rates for two years (FY2008 and FY2009) while the State has made an effort to increase subsidy funding.

Management believes the College's continuing efforts to seek other sources of funding, its 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