

TERRA COMMUNITY COLLEGE
ANNUAL REPORT
Years ended June 30, 2005 and 2004



**Auditor of State
Betty Montgomery**

Board of Trustees
Terra Community College
2830 Napolean Road
Fremont, Ohio 43420

We have reviewed the *Independent Auditor's Report* of Terra Community College, Sandusky County, prepared by Crowe Chizek and Company LLC, for the audit period July 1, 2004 through June 30, 2005. 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. Terra Community College is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

November 22, 2005

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TERRA COMMUNITY COLLEGE
Sandusky County

ANNUAL REPORT
June 30, 2005 and 2004

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TERRA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005 and 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of Terra Community College's financial statements provides an overview of the College's financial activities for the year ended June 30, 2005 with selected comparative information for the year ended June 30, 2004. Responsibility for the completeness and fairness of this information rests with the College and should be read in conjunction with the accompanying financial statements and notes.

Using the Annual Report

The following activities are included in the financial statements:

Primary Institution (College) - Most of the programs and services generally associated with a college fall into this category, including instruction, public service and support services.

Component Unit (Foundation) - The Terra Community College Foundation is a separate legal entity. Although legally separate, this "component unit" is important because the Primary Institution is financially accountable for it.

Management's discussion and analysis is focused on the Primary Institution. The College's financial basic statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. The focus of the Statements of Net Assets is designed to present the College's financial position as of a point in time. This statement combines current financial resources (short-term spendable resources) with capital assets and other long-term resources. The Statement of Revenues, Expenses, and Changes in Net Assets focus on the change in net assets over the year to indicate whether there has been improvement or erosion of the College's financial health.

Financial Highlights

When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as Terra Community College's operating results.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assts include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

TERRA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005 and 2004

Condensed Financial Information

Statement of Net Assets

(in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets			
Current assets	\$ 6,283	\$ 7,092	\$ 6,298
Capital assets, net	18,473	19,240	18,502
Other noncurrent assets	1,597	114	27
Total assets	26,353	26,446	24,827
Liabilities			
Current liabilities	1,860	1,947	1,275
Noncurrent liabilities	821	1,081	406
Total liabilities	2,681	3,028	1,681
Net assets			
Invested in capital assets, net of related debt	17,817	18,401	18,466
Restricted			
Nonexpendable	-	-	-
Expendable	822	556	1,069
Unrestricted	5,032	4,461	3,611
Total net assets	\$ 23,672	\$ 23,418	\$ 23,146

Assets: As of June 30, 2005 the College's total assets amount to approximately \$26.4 million. Investment in capital assets, net of depreciation, represented the College's largest asset, totaling \$18.5 million or 70 percent of total assets. Cash and cash equivalents and investments, totaling \$5.8 million or 22 percent of total assets, were the College's next largest asset. Cash and investments increased by approximately \$557 thousand in 2005, compared to a \$1.02 million increase in 2004.

Liabilities: At June 30, 2005 the College's liabilities totaled approximately \$2.7 million. Accounts payable and accrued liabilities represented \$1.1 million or 41 percent, of total liabilities. Total liabilities decreased during the year ended June 30, 2005 primarily due to the payments on two municipal leases for the new administrative software system purchased in 2004.

Net Assets: Net assets at June 30, 2005 totaled approximately \$23.7 million or 90 percent of total assets. Net assets invested in capital assets totaled \$17.8 million or 75 percent, of total net assets. Restricted and unrestricted net assets represented 4 percent and 21 percent of total net assets, respectively. Total net assets increased by \$254 thousand during the year ended June 30, 2005 and \$272 thousand for the year ended June 30, 2004.

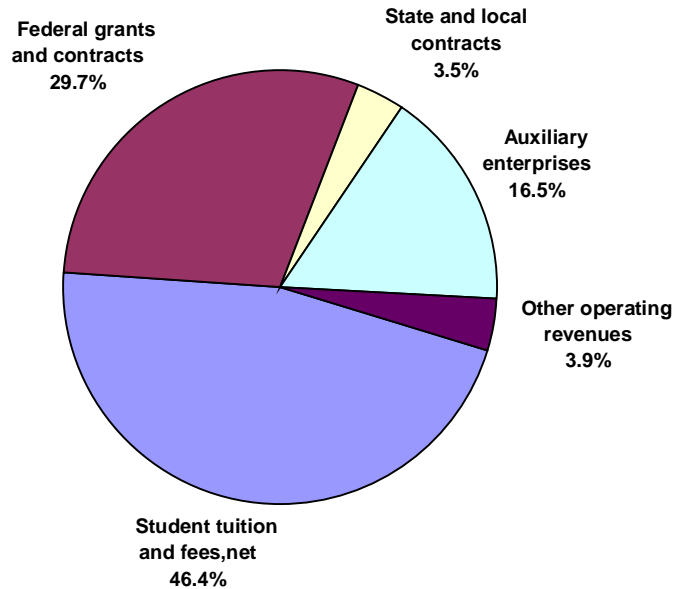
TERRA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005 and 2004

Statement of Revenues, Expenses and Changes in Net Assets
(in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenue			
Tuition and fees	\$ 4,383	\$ 4,159	\$ 3,995
Government grants	3,128	3,047	3,160
Auxiliary services	1,561	1,627	1,404
Other operating revenue	365	259	271
Total operating revenue	<u>9,437</u>	<u>9,092</u>	<u>8,830</u>
Operating expenses			
Educational and general	13,766	14,013	13,015
Auxiliary expenses	1,013	1,041	935
Depreciation	1,009	990	1,135
Total operating revenue	<u>15,788</u>	<u>16,044</u>	<u>15,085</u>
Net loss from operations	(6,351)	(6,952)	(6,255)
Nonoperating revenue (expenses)			
State appropriations	6,433	6,611	6,500
Gifts and grants	5	113	42
Investment income	85	49	58
Other nonoperating	(31)	(26)	(4)
Total nonoperating revenue	<u>6,492</u>	<u>6,747</u>	<u>6,596</u>
Capital appropriations	<u>112</u>	<u>477</u>	<u>144</u>
Increase in net assets during year	<u>\$ 254</u>	<u>\$ 272</u>	<u>\$ 486</u>

TERRA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005 and 2004

OPERATING REVENUES



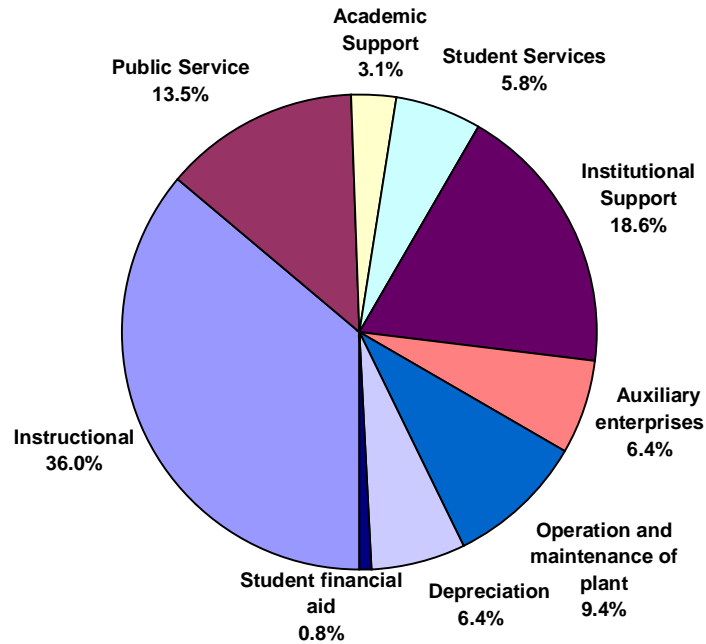
Total operating revenues were approximately \$9.4 million the year ended June 30, 2005. The most significant sources of operating revenue for the College are net student tuition and fees (46.4 percent), federal grants and contracts (29.7 percent) and auxiliary enterprise revenues (16.5 percent).

Tuition and fees continued to be the largest source of operating revenues for the College. Tuition revenue increased over 5% primarily from the increase in tuition rates. Auxiliary enterprises revenue decreased 4% as the College bookstore competed with on-line textbook vendors. In 2005 state grant revenue increased as several programs had additional funding over 2004.

State appropriations, which is considered nonoperating revenue as defined by GASB 35, is a significant recurring source of revenue essential to the operation of the College. The College's state appropriation for the year ended June 30, 2005, amounted to \$6.4 million. This represents a decrease of \$179 thousand from the College's appropriation for the prior year or 2.7%. In 2004, the appropriation increased \$111 thousand or 1.7% in comparison to 2003.

TERRA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005 and 2004

OPERATING EXPENSES



Operating expenses, including \$1.0 million of depreciation, totaled approximately \$15.8 million as compared to \$16.0 million in 2004 and \$15.1 million in 2003. The majority of the College's operating funds are expended directly for the primary mission of the College - instruction (36.0 percent), institutional support (18.6 percent) and public service (13.5 percent). This combined 68.1 percent compares with 66.0 percent in 2004 and 66.8 percent in 2003.

Total operating expenses decreased 1.6% with instruction expenses decreasing \$143 thousand. Total operating expenses had increased from 6% in 2003 to 2004 as a result of institutional student scholarships and grant funding for instructional equipment.

For the year ended June 30, 2005, student financial aid related to tuition and fees totaled \$2.2 million, including scholarship allowance of \$2.1 million (reflected as a reduction of student tuition revenue) and student financial aid expense of \$123 thousand (shown as operating expense). In 2005 student financial aid decreased by 12% in total from the prior year. For the year ended 2004 student financial aid was \$2.5 million as compared to \$1.9 million in 2003.

TERRA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005 and 2004

Statement of Cash Flows
(in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net cash provided (used) by:			
Operating activities	\$ (5,622)	\$ (5,271)	\$ (5,509)
Noncapital financing activities	6,438	6,724	6,541
Capital financing activities	(344)	(473)	(419)
Investing activities	<u>76</u>	<u>31</u>	<u>33</u>
 Net increase in cash	 548	 1,011	 646
 Cash-beginning of year	 <u>3,517</u>	 <u>2,506</u>	 <u>1,860</u>
 Cash-end of year	 <u>\$ 4,065</u>	 <u>\$ 3,517</u>	 <u>\$ 2,506</u>

The primary purpose of the statement of cash flows is to provide information about the cash receipts and cash payments made by the College during the period. The statement of cash flows also helps financial statement readers assess:

- The College's ability to generate future net cash flows,
- The College's ability to meet obligations as they become due and
- The College's need for external financing.

Major sources of funds included in operating activities are student tuition and fees (\$4.3 million) and grants and contracts (\$3.0 million). The largest cash payments for operating activities were to employees, for wages and benefits, (\$10.2 million) and to suppliers (\$4.6 million).

The largest cash receipt in the noncapital financing activities group is the operating appropriation from the State of Ohio. Cash used by capital and related financing activities is primarily expended on the construction and acquisition of capital assets.

Capital Assets

Capital assets, net of accumulated depreciation, totaled approximately \$18.5 million at June 30, 2005, a net decrease of \$767 thousand over the prior year-end. This contrasts with an increase of \$739 thousand in 2004 over 2003. Additions to capital assets during the year totaled \$284 thousand primarily as a result of the purchase of equipment.

TERRA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005 and 2004

Factors impacting future periods

The economic position of Terra Community College is closely tied to that of the State. State Share of Instruction and Access Challenge funding for FY06 is projected at \$5.7 million which is 2.8% below the funding received in FY05. Current projections for FY07 indicate the possibility of a slight increase to the College's state funding.

In FY05, the College was able to offset most of the losses in state funding through tight fiscal management and by exercising extensive cost cutting measures across the board. In anticipation of the potential of additional funding losses from the State, the Board of Trustees approved a tuition increase of 4.9% effective Summer 2005. Known expense increases for FY06 include an average of a 3% salary increase for both staff and faculty and a medical insurance increase of approximately 10%.

Campus-wide concentrated efforts have been made in the last couple of years to increase enrollment. These efforts have made some impact in previous years, however, due to the local and national economic conditions Fall 2005 has not been as strong. From Fall 2004 to Fall 2005, the college realized a decrease of approximately 7% in full time equivalent students. The college has adopted a strategic initiative for FY06 to address this situation. This initiative will focus specifically on recruiting new students as well as student retention.

Management is taking every step it can to insure the College remains in a strong financial position and be a valued resource to the community.



REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENTS

Board of Trustees
Terra Community College
Sandusky County
Fremont, Ohio

We have audited the accompanying financial statements of the business type activities and discretely presented component unit of Terra Community College (the College), a component unit of the State of Ohio, as of and for the periods ended June 30, 2005 and 2004, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of the business-type activities and discretely presented component unit of the College, as of June 30, 2005 and 2004, and the respective changes in net assets and cash flows, where applicable, thereof for the periods then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2005, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

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

The Management's Discussion and Analysis (MD&A) on pages 1 to 7 is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Columbus, Ohio
August 12, 2005

TERRA COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
June 30, 2005 and 2004

Assets	2005	2004
Current assets		
Cash and cash equivalents	\$ 4,064,737	\$ 3,516,902
Short-term investments	229,669	1,770,267
Intergovernmental receivable	236,324	236,913
Due from State of Ohio	7,697	25,569
Other receivables	1,415,204	1,244,052
Inventory	265,760	232,520
Other current assets	<u>63,739</u>	<u>65,285</u>
Total current assets	<u>6,283,130</u>	<u>7,091,508</u>
Noncurrent assets		
Cash in escrow	37,605	95,717
Long-term other receivables	9,608	18,650
Investments	1,549,696	--
Capital assets, gross	34,145,517	34,021,703
Accumulated depreciation	<u>(15,672,885)</u>	<u>(14,781,350)</u>
Capital assets, net	<u>18,472,632</u>	<u>19,240,353</u>
Total noncurrent assets	<u>20,069,541</u>	<u>19,354,720</u>
Total assets	<u>26,352,671</u>	<u>26,446,229</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,095,095	1,214,386
Deferred revenue	233,671	269,543
Capital lease obligation, current	191,709	215,106
Compensated absences, current	<u>339,404</u>	<u>248,546</u>
Total current liabilities	<u>1,859,879</u>	<u>1,947,581</u>
Noncurrent liabilities		
Capital lease obligation, noncurrent	464,012	624,632
Compensated absences, noncurrent	<u>357,124</u>	<u>455,938</u>
Total noncurrent liabilities	<u>821,136</u>	<u>1,080,570</u>
Total liabilities	<u>2,681,013</u>	<u>3,028,151</u>
Net assets		
Invested in capital assets, net of related debt	17,816,911	18,400,616
Nonexpendable	--	--
Expendable		
Other	55,534	51,848
Capital projects	766,895	504,732
Unrestricted	<u>5,032,316</u>	<u>4,460,882</u>
Total net assets	<u>\$ 23,671,656</u>	<u>\$ 23,418,078</u>

See accompanying notes to financial statements

TERRA COLLEGE FOUNDATION
STATEMENTS OF NET ASSETS
June 30, 2005 and 2004

Assets	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 322,094	\$ 233,412
Contributions receivable	118,192	125,112
Other accounts receivable	131,961	--
Investments	<u>728,517</u>	<u>679,603</u>
Total assets	<u>1,300,764</u>	<u>1,038,127</u>
 Liabilities		
Accounts payable	<u>77,822</u>	<u>--</u>
Total liabilities	<u>77,822</u>	<u>--</u>
 Net assets		
Unrestricted	42	2,890
Temporarily restricted	369,742	192,707
Permanently restricted	<u>853,158</u>	<u>842,530</u>
Total net assets	<u>\$ 1,222,942</u>	<u>\$ 1,038,127</u>

See accompanying notes to financial statements

TERRA COMMUNITY COLLEGE
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
Years ended June 30, 2005 and 2004

Revenues	<u>2005</u>	<u>2004</u>
Operating revenues		
Student tuition and fees (net of scholarship allowances of \$2,060,979 in 2005 and \$1,890,352 in 2004)	\$ 4,382,526	\$ 4,158,772
Federal grants and contracts	2,796,660	2,786,274
State grants and contracts	329,160	201,682
Private grants and contracts	3,237	59,247
Sales and services	196,611	195,612
Auxiliary enterprises	1,364,445	1,430,995
Other operating revenues	<u>364,798</u>	<u>258,920</u>
Total operating revenues	<u>9,437,437</u>	<u>9,091,502</u>
Expenses		
Operating expenses		
Educational and general		
Instructional	5,684,099	5,827,596
Public service	2,129,525	2,015,923
Academic support	490,898	511,415
Student services	920,940	938,340
Institutional support	2,930,905	2,745,425
Operation and maintenance of plant	1,486,029	1,396,939
Student financial aid	123,342	577,223
Depreciation expense	1,008,800	990,077
Auxiliary enterprises	<u>1,013,467</u>	<u>1,040,620</u>
Total operating expenses	<u>15,788,005</u>	<u>16,043,558</u>
Operating loss	<u>(6,350,568)</u>	<u>(6,952,056)</u>
Nonoperating revenues (expenses)		
State appropriations	6,432,739	6,611,382
Gifts	5,497	112,951
Investment income	84,918	48,930
Interest on indebtedness	<u>(31,090)</u>	<u>(25,616)</u>
Net nonoperating revenues	<u>6,492,064</u>	<u>6,747,647</u>
Income (loss) before capital appropriations	141,496	(204,409)
Capital appropriations	<u>112,082</u>	<u>476,735</u>
Increase in net assets	253,578	272,326
Net assets		
Net assets- beginning of year	<u>23,418,078</u>	<u>23,145,752</u>
Net assets- end of year	<u>\$ 23,671,656</u>	<u>\$ 23,418,078</u>

See accompanying notes to financial statements

TERRA COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
Year ended June 30, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support				
Contributions	\$ 1,250	\$ 241,870	\$ 10,628	\$ 253,748
Contributed services and supplies	77,882	--	--	77,882
Investment return	7,443	58,037	--	65,480
Net assets released from restrictions	<u>122,872</u>	<u>(122,872)</u>	<u>--</u>	<u>--</u>
Total revenues, gains and other support	209,447	177,035	10,628	397,110
Expenses				
Program services				
Scholarships and loans	36,224	--	--	36,224
Instructional equipment	4,639	--	--	4,639
Other	7,715	--	--	7,715
Supporting services				
Management and general	30,327	--	--	30,327
Fund raising	<u>133,390</u>	<u>--</u>	<u>--</u>	<u>133,390</u>
Total expenses	<u>212,295</u>	<u>--</u>	<u>--</u>	<u>212,295</u>
Change in net assets	(2,848)	177,035	10,628	184,815
Net assets				
Net assets - beginning of year	<u>2,890</u>	<u>192,707</u>	<u>842,530</u>	<u>1,038,127</u>
Net assets - end of year	<u>\$ 42</u>	<u>\$ 369,742</u>	<u>\$ 853,158</u>	<u>\$ 1,222,942</u>

See accompanying notes to financial statements

TERRA COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
Six months ended June 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support				
Contributions	\$ --	\$ 154,737	\$ 1,336	\$ 156,073
Contributed services and supplies	46,222	--	--	46,222
Investment return	2,062	11,581	--	13,643
Net assets released from restrictions	<u>213,222</u>	<u>(213,222)</u>	<u>--</u>	<u>--</u>
Total revenues, gains and other support	261,506	(46,904)	1,336	215,938
Expenses				
Program services				
Scholarships and loans	73,436	--	--	73,436
Instructional equipment	49,490	--	--	49,490
Supplies	51,633	--	--	51,633
Other	15,307	--	--	15,307
Supporting services				
Management and general	51,941	--	--	51,941
Fund raising	<u>26,113</u>	<u>--</u>	<u>--</u>	<u>26,113</u>
Total expenses	<u>267,920</u>	<u>--</u>	<u>--</u>	<u>267,920</u>
Change in net assets	(6,414)	(46,904)	1,336	(51,982)
Net assets				
Net assets - beginning of period	<u>9,304</u>	<u>239,611</u>	<u>841,194</u>	<u>1,090,109</u>
Net assets - end of period	<u>\$ 2,890</u>	<u>\$ 192,707</u>	<u>\$ 842,530</u>	<u>\$ 1,038,127</u>

See accompanying notes to financial statements

TERRA COMMUNITY COLLEGE
STATEMENT S OF CASH FLOWS
Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Tuition and fees	\$ 4,343,544	\$ 4,083,570
Grants and contracts	2,988,520	3,354,925
Other income	588,072	454,533
Auxiliary enterprise receipts	1,364,445	1,430,995
Payments to suppliers	(4,551,844)	(4,185,810)
Payroll and fringe benefits	(10,204,847)	(9,832,442)
Scholarships and fellowships	(123,342)	(577,223)
Net cash from operating activities	<u>(5,595,452)</u>	<u>(5,271,452)</u>
Cash flows from noncapital financing activities		
State appropriations	6,432,739	6,611,382
Grants and contracts other than capital	5,497	112,951
Net cash from noncapital financing activities	<u>6,438,236</u>	<u>6,724,333</u>
Cash flows from capital financing activities		
Purchases of capital assets	(284,055)	(801,923)
Proceeds from disposal of capital assets	16,313	--
State appropriations capital	112,082	476,735
Repayment of capital lease	(184,017)	(122,433)
Interest on capital lease	(31,090)	(25,616)
Net cash from financing activities	<u>(370,767)</u>	<u>(473,237)</u>
Cash flows from investing activities		
Change in short-term investments	1,540,598	(17,706)
Purchase of investments	(1,682,952)	--
Proceeds from sale and maturities of investments	102,705	--
Interest on investments	115,467	48,930
Net cash from investing activities	<u>75,818</u>	<u>31,224</u>
Net increase in cash	547,835	1,010,868
Cash and cash equivalents, beginning of year	<u>3,516,902</u>	<u>2,506,034</u>
Cash and cash equivalents, end of year	<u>\$ 4,064,737</u>	<u>\$ 3,516,902</u>
Reconciliation of net operating (loss) to net cash from operating activities		
Operating loss	\$ (6,350,568)	\$ (6,952,056)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation expense	1,008,800	990,077
Loss on disposal of capital assets	26,664	--
Changes in assets and liabilities		
Receivables	(143,647)	222,854
Inventories	(33,240)	5,754
Other assets	1,546	15,428
Accounts payable	(119,293)	451,634
Accrued salaries and benefits	(7,956)	65,985
Deposits held	58,112	(95,717)
Deferred revenue	(35,872)	24,589
Net cash from operating activities	<u>\$ (5,595,454)</u>	<u>\$ (5,271,452)</u>

See accompanying notes to financial statements

TERRA COLLEGE FOUNDATION
STATEMENTS OF CASH FLOWS
Periods ended June 30, 2005 and 2004

	June 30, 2005	June 30, 2004
	<u>(twelve months)</u>	<u>(six months)</u>
Cash flows from operating activities		
Contributions	\$ 195,902	\$ 173,769
Investment return	35,703	6,570
Scholarship and loan expenditures	(36,224)	(73,436)
Purchase of equipment for Terra Community College	(4,639)	(49,490)
Payments to suppliers	<u>(93,550)</u>	<u>(98,772)</u>
Net cash from operating activities	<u>97,192</u>	<u>(41,359)</u>
Cash flows from investing activities		
Proceeds from sale of long-term investments	531,720	111,161
Purchase of long-term investments	<u>(550,858)</u>	<u>(106,309)</u>
Net cash from investing activities	<u>(19,138)</u>	<u>(4,852)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for long-term purposes	<u>10,628</u>	<u>1,336</u>
Net cash from financing activities	<u>10,628</u>	<u>1,336</u>
Net change in cash	88,682	(35,171)
Cash and cash equivalents, beginning of period	<u>233,412</u>	<u>268,583</u>
Cash and cash equivalents, end of period	<u>\$ 322,094</u>	<u>\$ 233,412</u>
 Reconciliation of net operating revenues (expenses) to net cash from operating activities		
Change in net assets	\$ 184,815	\$ (51,982)
Adjustments to reconcile change in net assets to net cash from operating activities		
Unrealized loss on investments	(29,776)	(7,073)
Increase in contributions receivable	6,920	19,032
Contributions restricted for long-term purposes	(10,628)	(1,336)
Change in assets and liabilities		
Accounts receivable	(131,961)	--
Accounts payable	<u>77,822</u>	<u>--</u>
Net cash from operating activities	<u>\$ 97,192</u>	<u>\$ (41,359)</u>

See accompanying notes to financial statements

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The College is a component unit of the State of Ohio and is included in the general-purpose statements of the State of Ohio. Terra College Foundation (Foundation) is a legally separate, tax-exempt organization that exists to provide financial assistance to the educational programs, services and facilities of the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements.

The Foundation's fiscal year was different than the College's fiscal year of June 30. Effective for the six month period ended June 30, 2004 the Foundation changed its year end to June 30 to be consistent with the College. Therefore the Foundation's financial statements present activity for the 6 months ended June 30, 2004 and the 12 months ended June 30, 2005.

Financial Statement Presentation: The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In accordance with GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities* (GASB No. 35) and subsequent standards issued by GASB, the financial statement presentation is intended to provide a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

The financial statements of the Terra College Foundation are included in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units - an amendment of GASB Statement No. 14*. This Statement amended Statement No. 14 to provide additional guidance to determine whether certain organizations, such as not-for-profit foundations, for which the primary institution is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the primary entity. Generally, this statement requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of an institution.

Basis of Accounting: For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

(Continued)

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets: The College's net assets are classified as follows:

Invested in capital assets, net of related debt. This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted net assets - nonexpendable. Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. At June 30, 2005 and 2004, the College had no nonexpendable restricted assets.

Restricted net assets - expendable. Restricted expendable net assets include resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted net assets. Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the governing board to meet current expenses for any purpose.

Cash Equivalents: For the purposes of the statements of cash flows, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments: The College accounts for its investments at fair value. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses, and changes in net assets.

Accounts Receivable: Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of Ohio. Accounts receivable also include amounts due from the federal government, state and local governments or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories: Inventories consist principally of books and supplies of the bookstore. Bookstore inventories at year-end are stated at the lower of cost or market value on the first-in, first-out basis.

(Continued)

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the College's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 to 50 years for buildings, 20 to 25 years for infrastructure and land improvements, and 5 to 15 years for equipment.

Deferred Revenues: Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences: Employee vacation pay and sick time are accrued at year-end for financial statement purposes. The liabilities and expenses incurred are included at year-end as current and noncurrent compensated absences in the statements of net assets, and as a component of compensation and benefit expense in the statements of revenues, expenses, and changes in net assets.

Noncurrent Liabilities: Noncurrent liabilities include estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.

Income Tax: The College, as a political subdivision of the State of Ohio, is excluded from federal income taxes under Section 115 (1) of the Internal Revenue Code, as amended.

Classification of Revenues: The College has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenue. Operating revenues included activities that have the characteristics of exchange transactions such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local grants and contracts and federal appropriations, and (4) interest on institutional student loans.

Nonoperating revenues. Nonoperating revenues included activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources.

(Continued)

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Scholarship Discounts and Allowances: Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

Adoption of New Accounting Principle: For the year ended June 30, 2005, the College implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*. This new statement amends certain custodial risk provisions of GASB Statement No. 3 and addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

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

Reclassifications: Certain items have been reclassified for the year ended June 30, 2004, to conform to classifications used for the year ended June 30, 2005.

NOTE 2 - DEPOSITS AND INVESTMENTS

In accordance with the State of Ohio's and the College's policy, the College is authorized to invest cash in certificates of deposit, repurchase agreements, United States treasury securities, federal government agency securities backed by the full faith and credit of the U.S. government, Ohio municipal securities and the State Treasurer's investment pool. The classification of cash and cash equivalents and investments in the financial statements is based on criteria set forth in GASB Statement No. 9. Cash equivalents are defined to include investments with original maturities of three months or less. Consistent with this definition, College funds on deposit in the State Treasurer's investment pool are classified as cash equivalents in the balance sheet. However, for GASB Statement No. 3 discussion purposes (see below), the funds in the State Treasurer's investment pool are classified as investments.

(Continued)

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2005 and 2004

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Deposits: At June 30, 2005, the carrying amount of the College's deposits in all funds was \$4,100,522 (which consists of cash, excluding cash on hand of \$1,820, and cash in escrow) and the bank balance was \$4,273,167. The difference between carrying amount and bank balance was primarily due to outstanding checks at June 30, 2005. Of the bank balance, \$100,000 was covered by federal depository insurance or by collateral held by the College's agent in the College's name. The remaining balance of \$4,173,167 was uninsured.

The uninsured deposits are held in accounts collateralized by a pooled collateral account at the Federal Reserve Banks. Custodial credit risk for deposits is the risk that, in the event of a bank failure, the College's deposits may not be returned to the College. The College follows the deposit policy for custodial risk in accordance with the Ohio Revised Code.

Investments: Investments are stated at their fair value of \$1,779,365 (amortized cost basis of \$1,809,915). The College's investments include \$41,102 invested in a money market account, \$1,549,696 invested in Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA) mortgage-backed securities. These securities are collateralized by underlying pools of mortgages primarily issued by GNMA, FNMA or FHLMC which guarantee full and timely payment of principal and interest. The remaining \$188,568 was on deposit in the State Treasurer's investment pool (STAR Ohio) and valued at the pool's share, which is the price for which the investment could be sold on June 30, 2005. STAR Ohio has a AAA rating.

The values of mortgage backed securities are generally based on the cash flows from principal and interest receipts on the underlying mortgage pools. The College has invested in collateralized mortgage obligations (CMOs). In a CMO, the cash flows from principal and interest payments from a pool of mortgages may be reallocated to multiple security classes with different priority claims and payment streams (commonly referred to as tranches). A holder of the CMO security thus chooses the class of security that best meets its risk and return objectives. The College has five tranches of CMOs outstanding at June 30, 2005 which have average maturities ranging from (0.81 years to 1.94 years).

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Mortgage backed securities are subject to interest rate risk. The College's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the state of Ohio requirements and to insure that the term of the maturity of investments does not exceed the availability of the funds invested.

(Continued)

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2005 and 2004

NOTE 3 - ACCOUNTS RECEIVABLE

Receivables at June 30, 2005 consisted of accounts (tuition and other fees), notes, interest and intergovernmental grants. All receivables, except for doubtful accounts receivables in collection with the Ohio Attorney General, are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds.

NOTE 4 - CAPITAL ASSETS

Capital assets at June 30, 2005 and 2004 are summarized as follows:

<u>Description</u>	July 1, 2004	<u>Additions</u>	<u>Deletions</u>	June 30, 2005
Land	\$ 302,404	\$	\$	\$ 302,404
Improvements	2,530,499	41,746		2,572,245
Buildings	24,270,045	98,277		24,368,323
Equipment, furniture and books	6,918,755	144,032	(160,242)	6,902,545
Total	<u>34,021,703</u>	<u>\$ 284,055</u>	<u>\$ (160,242)</u>	34,145,517
Accumulated depreciation	<u>(14,781,350)</u>	<u>\$ (1,008,800)</u>	<u>\$ 117,265</u>	<u>(15,672,885)</u>
Capital assets, net	<u>\$ 19,240,353</u>			<u>\$ 18,472,632</u>
	July 1, 2003	<u>Additions</u>	<u>Deletions</u>	June 30, 2004
Land	\$ 302,404	\$	\$	\$ 302,404
Improvements	2,530,499			2,530,499
Buildings	23,844,701	425,344		24,270,045
Equipment, furniture and books	10,965,152	1,303,579	(5,349,976)	6,918,755
Total	<u>37,642,756</u>	<u>\$ 1,728,923</u>	<u>\$ (5,349,976)</u>	34,021,703
Accumulated depreciation	<u>(19,141,249)</u>	<u>\$ (990,077)</u>	<u>\$ 5,349,976</u>	<u>(14,781,350)</u>
Capital assets, net	<u>\$ 18,501,507</u>			<u>\$ 19,240,353</u>

Based upon a physical inventory of capital assets performed in 2004, the College reduced the cost and corresponding accumulated depreciation for fully depreciated items no longer in service.

(Continued)

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2005 and 2004

NOTE 5 - STATE SUPPORT

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

In addition to the current operating subsidies, the State of Ohio provides the funding for the construction of major plant facilities on Terra Community College's campus. The funding is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission (OPFC), which in turn initiates the construction and subsequent lease of the facility by the Ohio Board of Regents.

Such facilities are reflected as building or construction in progress in the accompanying balance sheet. Neither the obligation for the bonds issued by OPFC nor the annual debt service charges for principal and interest on the bonds are reflected in the College's financial statements. Debt service is funded through appropriations to the Ohio Board of Regents by the General Assembly.

In 2005 the College received capital project appropriations of \$112,082 for building renovations. In 2004, the College received capital project appropriations of \$590,009, under a program that involved another community college. The amount shown as capital appropriations of \$476,735 are net of the amounts utilized by the other community college.

NOTE 6 - ACCRUED LIABILITIES

Accrued liabilities include payments for SERS and STRS, and alternative retirement benefit payments due on accrued salaries. Also included are vacation and sick leave benefits and salaries and wages payable at June 30, 2005.

The SERS and STRS payable represents withholdings from employees in one fiscal year to be paid to the School Employees Retirement System and the State Teachers Retirement System in subsequent fiscal year. Vacation and sick leave payable is management's estimation of earned benefits that would be paid to employees upon termination, retirement or by usage of vacation and sick leave. It is recorded in accordance with Statement No. 16 of the Governmental Accounting Standards Board. Salaries and wages payable represent employee earnings for one fiscal year that are not paid until the subsequent fiscal year. It is mostly faculty contracts that are earned but not yet paid at year-end.

(Continued)

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2005 and 2004

NOTE 7 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System (SERS): Terra Community College contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirements System, 300 East Broad Street, Columbus, Ohio 43215.

Plan members are required to contribute 10% of their covered salary and Terra Community College is required to contribute an actuarially determined rate. The current rate is 14% of covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory amounts, by SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The College's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$527,591, \$511,990 and \$489,194 respectively.

State Teachers Retirement System (STRS): Terra Community College contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer retirement system administered by the State Teachers Retirement System. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 10% of their covered salary and Terra Community College is required to contribute an actuarially determined rate. The current rate is 14% of covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory amounts, by STRS' Retirement Board. The adequacy of the contribution rates is determined annually. The College's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$535,107, \$517,888 and \$517,712 respectively.

(Continued)

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2005 and 2004

NOTE 8 - POSTEMPLOYMENT BENEFITS

The College provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. Through June 30, 2004 (the latest information available) the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the College, this amount was \$38,000 and \$160,000 during fiscal years 2005 and 2004. The balance in the Health Care Reserve Fund was \$3.1 billion on June 30, 2004 (the latest information available).

For the year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$269 million and STRS had approximately 112,000 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 50% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent is allocated to providing health care benefits. At June 30, 2004 (the latest information available) the allocation rate was 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004 (the latest information available), the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 (the latest information available) were \$223.4 million and the target level was \$335.2 million. At June 30, 2004 (the latest information available), the Retirement System's net assets available for payment of health care benefits were \$300.8 million. The number of participants currently receiving health care benefits is approximately 62,000. The portion of the employer contributions that were used to fund post employment benefits was \$185,000 and \$350,000 for 2005 and 2004.

(Continued)

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2005 and 2004

NOTE 9 - OPERATING EXPENSES BY NATURAL CLASSIFICATION

The College's operating expenses by natural classification were as follows for the years ended June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Salaries and wages	\$ 7,877,887	\$ 7,588,688
Employee benefits	2,319,004	2,309,739
Utilities	483,079	539,503
Supplies and other services	3,975,893	4,040,187
Depreciation	1,008,800	990,077
Student scholarships and financial aid	<u>123,342</u>	<u>575,364</u>
	<u>\$ 15,788,005</u>	<u>\$ 16,043,558</u>

NOTE 10 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts, theft of, damage to, and destructions of assets, errors and omissions, injuries to employees and natural disaster. The College contracts with Selective Insurance Company for property and general liability insurance, including boiler, machinery and vehicle coverage. Vehicles hold a \$250 comprehensive and \$500 collision deductible. Automobile liability coverage has a \$1,000,000 limit for collision and a \$1,000,000 limit for bodily injury. The professional liability coverage is through Fireman's Fund Insurance Co. The College has not had a significant reduction in coverage from the prior year. Settled claims have not exceeded any aforementioned commercial coverage in any of the past four years.

The College pays the State Worker's Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative cost. The College provides life insurance, and accidental death and dismemberment insurance to its full-time employees.

The College contracts with Anthem Blue Cross and Blue Shield Insurance for hospitalization and dental insurance. The College pays 90% of the monthly premiums for health insurance coverage for full-time faculty as well as 100% of the single dental premium. The college pays 88% of health premiums and 88% of single dental premiums for full-time staff.

(Continued)

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2005 and 2004

NOTE 11 - NONCURRENT LIABILITIES

Noncurrent liabilities at June 30, 2005 and 2004 are summarized as follows:

	<u>July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2005</u>	<u>Non Current Portion</u>	<u>Current Portion</u>
Lease obligations						
Capital lease obligations	\$ 839,738	\$ -	\$(184,017)	\$ 655,721	\$ 464,012	\$191,709
Total lease obligations	<u>839,738</u>	<u>-</u>	<u>(184,017)</u>	<u>655,721</u>	<u>464,012</u>	<u>191,709</u>
Other liabilities						
Compensated absences	<u>704,484</u>	<u>259,499</u>	<u>(267,455)</u>	<u>696,528</u>	<u>357,124</u>	<u>339,404</u>
Total other liabilities	<u>704,484</u>	<u>259,499</u>	<u>(267,455)</u>	<u>696,528</u>	<u>357,124</u>	<u>339,404</u>
Total noncurrent obligations	<u>\$ 1,544,222</u>	<u>\$ 259,499</u>	<u>\$(451,472)</u>	<u>\$ 1,652,249</u>	<u>\$ 821,136</u>	<u>\$531,113</u>
	<u>July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2004</u>	<u>Non Current Portion</u>	<u>Current Portion</u>
Lease obligations						
Capital lease obligations	\$ 35,171	\$ 927,000	\$(122,433)	\$ 839,738	\$ 624,632	\$215,106
Total lease obligations	<u>35,171</u>	<u>927,000</u>	<u>(122,433)</u>	<u>839,738</u>	<u>624,632</u>	<u>215,106</u>
Other liabilities						
Compensated absences	<u>638,499</u>	<u>275,452</u>	<u>(209,467)</u>	<u>704,484</u>	<u>455,938</u>	<u>248,546</u>
Total other liabilities	<u>638,499</u>	<u>275,452</u>	<u>(209,467)</u>	<u>704,484</u>	<u>455,938</u>	<u>248,546</u>
Total noncurrent obligations	<u>\$ 673,670</u>	<u>\$ 1,202,452</u>	<u>\$(331,900)</u>	<u>\$ 1,544,222</u>	<u>\$1,080,570</u>	<u>\$463,652</u>

The College has entered into lease agreements for financing the acquisition of capital equipment. These leases qualify as a capital leases for accounting purposes (title transfers at the end of the lease term) and, therefore, have been recorded at present value of the future minimum lease payments as of the date of inception.

(Continued)

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2005 and 2004

NOTE 11 - NONCURRENT LIABILITIES (Continued)

The following is a schedule of future minimum lease payments under capital leases and the present value of the net minimum lease payments at June 30, 2005:

<u>Year</u>	
2006	\$ 215,106
2007	215,106
2008	204,898
2009	<u>67,057</u>
Total minimum lease payment	702,167
Less: amount representing interest	<u>(46,445)</u>
 Present value of future minimum lease payments	 <u>\$ 655,721</u>

The cost of equipment under capital leases for 2005 and 2004 was \$889,804 and \$69,805 respectively. Accumulated depreciation on equipment under capital leases for 2005 and 2004 was \$138,320 and \$11,634 respectively.

NOTE 12 - CONTINGENCIES

At June 30, 2005, there were lawsuits and claims pending against Terra Community College. In the opinion of management, the ultimate liabilities, if any, resulting from such lawsuits and claims will not materially affect the financial position of Terra Community College.

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. College management believes disallowances, if any, will be immaterial.

NOTE 13 - COMPONENT UNIT DISCLOSURE

The accompanying financial statements of the Foundation have been prepared in accordance with pronouncements of the Financial Accounting Standards Board. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2005 and 2004

Contributions to the Foundation are recognized and reported as revenue at fair value upon the earlier of the period in which a pledge becomes unconditional or the period in which the contribution is received. Contributions with donor-imposed restrictions are reported as temporarily or permanently restricted support, while contributions without donor-imposed restrictions are reported as unrestricted support.

Foundation investments are stated at market value, with changes in market value being recognized as gains and losses during the period in which they occur.

Fair value of investments held by the Foundation are summarized as follows:

	June 30, <u>2005</u>	June 30, <u>2004</u>
Money market funds	\$ 51,715	\$ 64,991
Debt securities	161,941	270,570
Equity securities	<u>514,861</u>	<u>344,042</u>
Total investments	<u>\$ 728,517</u>	<u>\$ 679,603</u>

During the twelve months ended June 30, 2005 and the six months ended June 30, 2004, the Foundation made contributions of approximately \$49,000 and \$190,000 respectively to or on behalf of the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Terra College Foundation, 2830 Napoleon Road, Fremont, Ohio 43420.

SUPPLEMENTAL INFORMATION

TERRA COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2005

Federal Grantor/ Pass-Through Grantor/ <u>Program Title</u>	Pass through Entity <u>Number</u>	Federal CFDA <u>Number</u>	<u>Receipts Recognized</u>	<u>Program Expenditures</u>
<u>U.S. Department of Education</u>				
Student Financial Aid Cluster				
Pell Grant - Financial Aid	Direct	84.063	\$ 1,720,981	\$ 1,720,981
Pell Grant - Adm. Allowance	Direct	84.063	8,830	8,830
Total Pell Grant			<u>1,729,811</u>	<u>1,729,811</u>
Federal Supplemental Educational				
Opportunity Grant	Direct	84.007	95,413	95,413
Federal Work Study	Direct	84.033	76,323	76,323
Federal Family Education Loans (Note 2)	Direct	84.032	<u>2,209,603</u>	<u>2,209,603</u>
Total Student Financial Aid Cluster			4,111,150	4,111,150
Child Care				
Childcare Access Means Parents in School	Direct	84.335A	9,004	9,004
Pass through Ohio Department of Education				
Perkins Grant	VEC PII-P2004-509	84.048	41,359	43,022
Tech Prep	VETP-2004-18	84.243	<u>169,987</u>	<u>169,987</u>
Total Ohio Department of Education			211,346	211,346
Pass through Ohio Bureau of Vocational Rehabilitation				
Rehabilitation Services Basic Support	DLM 98094	84.126	<u>80,244</u>	<u>80,244</u>
Total U.S. Department of Education			4,411,744	4,431,176
<u>U.S. Department of Labor</u>				
Pass through Ohio Department of Job & Family Services				
Workforce Investment Act	48621	17.258	451,302	451,302
	48621	17.259	42,066	42,066
	48621	17.260	76,355	76,355
Pass through Ohio Department of Employment Services				
Training Readjustment Act	6170	17.245	<u>254,952</u>	<u>254,952</u>
Total U.S. Department of Labor			824,675	824,675

(Continued)

TERRA COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2005

Federal Grantor/ Pass-Through Grantor/ <u>Program Title</u>	Pass through Entity <u>Number</u>	Federal CFDA <u>Number</u>	<u>Receipts</u> <u>Recognized</u>	<u>Program</u> <u>Expenditures</u>
<u>U.S. Department of Health & Human Services</u>				
Administration for Children & Families	224-53	93.558	\$ 8,645	\$ 8,645
	227-53	93.558	1,726	1,726
	230-53	93.558	30,322	30,322
	491-53	93.558	4,920	4,920
	499-53	93.558	2,712	2,712
Total U.S. Department of Health & Human Services			48,325	48,325
<u>U.S. Department of Veteran's Affairs</u>				
Veteran's Rehabilitation	14923435	64.116	24,416	24,416
<u>Small Business Administration</u>				
Pass through Ohio Dept. of Development Small Business Administration Center	56080	59.037	83,929	83,929
Total Federal Expenditures			\$ 5,393,089	\$ 5,393,089

TERRA COMMUNITY COLLEGE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2005

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2 - OUTSTANDING LOANS

The College does not make Federal Family Education Loans (FFELs). The amount presented of \$2,209,603 represents the value of new FFELs awarded during the year.

TERRA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2005

1. Summary of Auditor's Results

- a. An unqualified opinion was issued on the financial statements of Terra Community College for the year ended June 30, 2005.
- b. An unqualified opinion was issued to Terra Community College for compliance with major programs.
- c. The audit did not disclose any noncompliance that is material to the financial statements.
- d. There were no audit findings required to be disclosed under OMB Circular A-133 Section 510(a).
- e. Major Programs Identified:
 - Student financial aid cluster
 - Federal Pell Grant program
 - Federal Supplemental Educational Opportunity Grant
 - Federal Work Study program
 - Federal Family Education Loan program
- f. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- g. The auditee was considered a low-risk auditee.

2. Findings related to financial statements that are required to be reported in accordance with GAGAS:

None.

3. Findings and questioned costs for federal awards including audit findings as described in OMB Circular A-133 Section 510(a):

None.

PRIOR YEAR FINDINGS

No findings or questioned costs for federal awards including audit findings as defined in OMB Circular A-133 Section 510(a) were reported in the prior audit period.



Crowe Chizek and Company LLC
Member Horwath International

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

Board of Trustees
Terra Community College
Sandusky County
Fremont, Ohio

We have audited the financial statements of Terra Community College (the College) as of and for the year ended June 30, 2005, and have issued our report thereon dated August 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted matters involving internal control over financial reporting that we have reported to management of Terra Community College in a separate letter dated August 12, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies and pass-through entities and the State of Ohio Office of the Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Columbus, Ohio
August 12, 2005

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

Board of Trustees
Terra Community College
Sandusky County
Fremont, Ohio

Compliance

We have audited the compliance of Terra Community College (the College) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, we have communicated other observations involving immaterial instances of noncompliance to the management of the College in a separate letter dated August 12, 2005.

Internal Control Over Compliance

The management of the College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies and pass-through entities and the State of Ohio Office of the Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Columbus, Ohio
August 12, 2005



**Auditor of State
Betty Montgomery**

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TERRA COMMUNITY COLLEGE

SANDUSKY 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
DECEMBER 13, 2005**