TERRA COMMUNITY COLLEGE
ANNUAL REPORT
Years ended June 30, 2007 and 2006

Board of Trustees
Terra Community College
2830 Fremont Rd
Fremont, Ohio 43420

We have reviewed the *Report of Independent Auditors* of the Terra Community College, Sandusky County, prepared by Crowe Chizek and Company LLC, for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 12, 2007

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TERRA COMMUNITY COLLEGE
Sandusky County

ANNUAL REPORT
June 30, 2007 and 2006

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Crowe

Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

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 years ended June 30, 2007 and 2006, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of College’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of the business-type activities, the discretely presented component unit of the College, as of June 30 2007 and 2006, and the respective changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 15, 2007 on our consideration of the College's internal control over financial reporting and on 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.

The Management's Discussion and Analysis (MD&A) on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College, basic financial statements. 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Columbus, Ohio
October 15, 2007

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, 2007 with selected comparative information for the years ended June 30, 2006 and 2005. 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.

Condensed Financial Information

Statement of Net Assets
(in thousands)

	2007	2006	2005
Assets			
Current assets	$ 7,545	$ 7,261	$ 6,283
Capital assets, net	16,999	17,744	18,473
Other noncurrent assets	1,071	1,016	1,597
Total assets	25,615	26,021	26,353
Liabilities			
Current liabilities	1,822	1,889	1,860
Noncurrent liabilities	426	616	821
Total liabilities	2,248	2,505	2,681
Net assets			
Invested in capital assets, net of related debt	16,734	17,280	17,817
Restricted			
Nonexpendable	--	--	--
Expendable	1,194	829	823
Unrestricted	5,438	5,406	5,032
Total net assets	$ 23,366	$ 23,515	$ 23,673

Assets: As of June 30, 2007 the College's total assets amount to approximately $25.6 million. Investment in capital assets, net of depreciation, represented the College's largest asset, totaling $16.7 million or 65 percent of total assets. Cash and cash equivalents and investments, totaling $6.2 million or 24 percent of total assets, were the College's next largest asset. Cash and investments increased by approximately $308 thousand in 2007, compared to a $28 thousand increase in 2006.

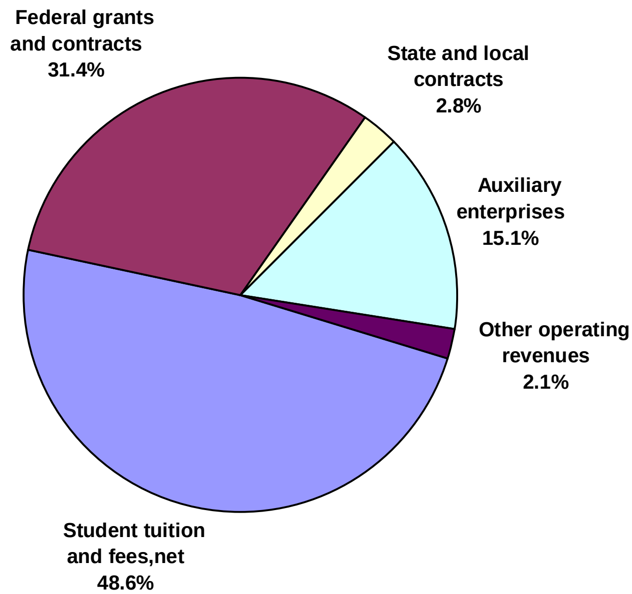
Liabilities: At June 30, 2007 the College's liabilities totaled approximately $2.2 million. Accounts payable and accrued liabilities represented $914 thousand or 41 percent, of total liabilities. Total liabilities decreased $257 thousand during the year ended June 30, 2007 primarily due to the payments on two municipal leases for a new administrative software system purchased in 2004.

Net Assets: Net assets at June 30, 2007 totaled approximately $23.4 million or 91 percent of total assets. Net assets invested in capital assets totaled $16.7 million or 72 percent, of total net assets. Restricted and unrestricted net assets represented 5 percent and 23 percent of total net assets, respectively. Total net assets decreased by $149 thousand during the year ended June 30, 2007 and decreased by $156 thousand for the year ended June 30, 2006.

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

	2007	2006	2005
Operating revenue			
Tuition and fees	$ 4,423	$ 4,562	$ 4,383
Government grants	3,104	3,171	3,128
Auxiliary services	1,184	1,493	1,561
Other operating revenue	379	259	365
Total operating revenue	9,090	9,485	9,437
Operating expenses			
Educational and general	13,715	13,964	13,766
Auxiliary expenses	1,032	1,008	1,013
Depreciation	979	973	1,009
Total operating revenue	15,726	15,945	15,788
Operating loss	(6,636)	(6,460)	(6,351)
Nonoperating revenue (expenses)			
State appropriations	6,058	6,111	6,433
Gifts and grants	49	20	5
Investment income	284	183	85
Insurance recovery	58	--	--
Other nonoperating	(21)	(80)	(31)
Total nonoperating revenue	6,428	6,234	6,492
Capital appropriations	59	70	112
Change in net assets during year	$ (149)	$ (156)	$ 254

OPERATING REVENUES

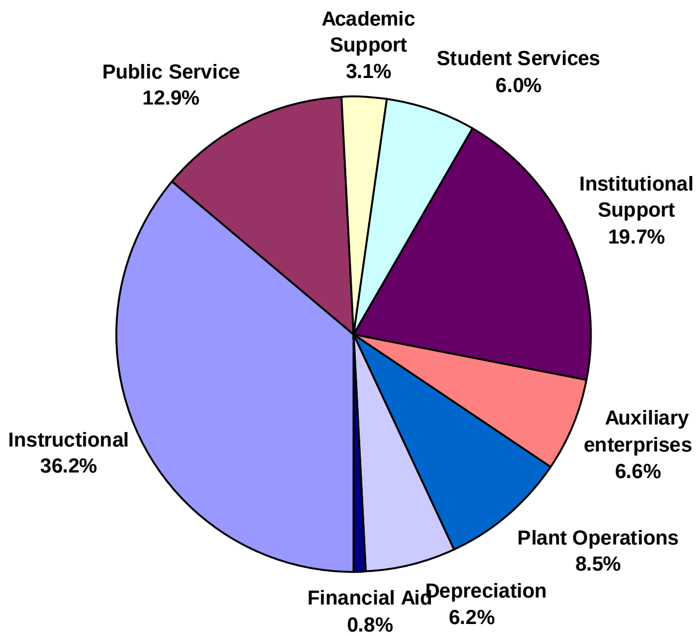


Total operating revenues were approximately $9.1 million the year ended June 30, 2007. The most significant sources of operating revenue for the College are net student tuition and fees (48.6 percent), federal grants and contracts (31.4 percent) and auxiliary enterprise revenues (15.1 percent).

Tuition and fees continued to be the largest source of operating revenues for the College. Tuition revenue decreased 3% primarily from a decline in enrollment. The College's full time equivalent (FTE) students for FY07 were 1,347 while in FY06 the total was 1,493 and for FY05 the total was 1,576. Over the past five years, the annual FTE average has been approximately 1,500. Auxiliary enterprises revenue from the College bookstore was impacted by lower enrollment with a decrease of nearly 9% from 2006. In 2007 state grant revenue remained consistent at approximately 3% of operating revenues.

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, 2007, amounted to $6.1 million. This represents a decrease of $52 thousand from the College's appropriation for the prior year or less than 1%. In 2006, the appropriation decreased $322 thousand or 5% in comparison to 2005.

OPERATING EXPENSES



Operating expenses, including $979 thousand of depreciation, totaled approximately $15.7 million as compared to $15.9 million in 2006 and $15.8 million in 2005. The majority of the College's operating funds are expended directly for the primary mission of the College – instruction (36.2 percent), institutional support (19.7 percent) and public service (12.9 percent). This combined 68.8 percent compares with 69.3 percent in 2006 and 68.1 percent in 2005.

Total operating expenses decreased 1.4% from 2006 with instruction expenses decreasing $170 thousand. Lower enrollment resulted in less adjunct faculty and classroom supply costs. Total operating expenses had increased 1.0% from 2005 to 2006.

For the year ended June 30, 2007, student financial aid related to tuition and fees totaled $2.0 million, including scholarship allowance of $1.9 million and student aid expense of $129 thousand. In 2007 student financial aid decreased by 2.8% in total from the prior year. For the year ended 2006 student financial aid was $2.1 million as compared to $2.2 million in 2005.

Statement of Cash Flows
(in thousands)

	2007	2006	2005
Net cash provided (used) by:			
Operating activities	$ (5,745)	$ (5,795)	$ (5,595)
Noncapital financing activities	6,107	6,131	6,438
Capital financing activities	(337)	(453)	(371)
Investing activities	134	(874)	76
Net increase in cash	159	(991)	548
Cash-beginning of year	3,074	4,065	3,517
Cash-end of year	$ 3,233	$ 3,074	$ 4,065

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 ($4.4 million) and grants and contracts ($3.1 million). The largest cash payments for operating activities were to employees, for wages and benefits, ($10.5 million) and to suppliers ($4.2 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 $17 million at June 30, 2007, a net decrease of $746 thousand over the prior year-end. This compares with a decrease of $728 thousand in 2006 from 2005. Additions to capital assets during the year totaled $359 thousand primarily as a result of the purchase of equipment.

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 FY08 is projected at $5.8 million which is 4.0% above the funding received in FY07. The State has mandated that state-assisted colleges and universities demonstrate efficiency savings of 1% or approximately $118,000 in FY08 and 3% or approximately $354,000 in FY09 to be eligible for this additional funding.

In FY07, the College was able to offset the decrease in state funding and lower enrollment through tight fiscal management and by exercising extensive cost cutting measures across the board. In March 2007, the Board of Trustees approved the College's participation in the Higher Education Compact with no tuition increase for the FY08 academic year. Known expense increases for FY08 include an average of a 2.25% salary increase for faculty, an average of a 2.0% salary increase for unionized staff, and medical insurance increase of approximately 25%.

The College converted from quarters to semesters in Fall 2006 in to be on a common calendar with other colleges and universities in the area. Although enrollment declined in FY07, both Summer and Fall terms in FY08 reflect increased enrollment.

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.

TERRA COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
June 30, 2007 and 2006

	2007	2006
Assets		
Current assets		
Cash and cash equivalents	$ 3,233,354	$ 3,073,754
Short-term investments	1,913,867	1,819,515
Intergovernmental receivable	185,144	257,757
Due from State of Ohio	205,439	128,512
Loans receivable, net	48,071	41,093
Other receivables	1,587,465	1,483,061
Inventory	326,891	387,700
Other current assets	44,961	69,106
Total current assets	7,545,192	7,260,498
Noncurrent assets		
Investments	1,071,169	1,016,419
Capital assets, gross	34,510,299	34,378,810
Accumulated depreciation	(17,511,741)	(16,634,446)
Capital assets, net	16,998,558	17,744,364
Total noncurrent assets	18,069,727	18,760,783
Total assets	25,614,919	26,021,281
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	914,281	1,058,830
Deferred revenue	393,716	280,514
Capital lease obligation, current	197,876	199,727
Compensated absences, current	316,400	350,099
Total current liabilities	1,822,273	1,889,170
Noncurrent liabilities		
Capital lease obligation, noncurrent	66,409	264,285
Compensated absences, noncurrent	359,430	352,303
Total noncurrent liabilities	425,839	616,588
Total liabilities	2,248,112	2,505,758
Net assets		
Invested in capital assets, net of related debt	16,734,273	17,280,352
Nonexpendable	--	--
Expendable		
Other	226,997	51,552
Capital projects	967,443	776,875
Unrestricted	5,438,094	5,406,744
Total net assets	$ 23,366,807	$ 23,515,523

See accompanying notes to financial statements

TERRA COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2007 and 2006

	2007	2006
Assets		
Cash and cash equivalents	$ 327,621	$ 346,657
Contributions receivable	90,666	102,672
Other accounts receivable	63,348	62,131
Investments	909,666	790,832
Total assets	1,391,301	1,302,292
Liabilities		
Accounts payable	34,236	9,296
Total liabilities	34,236	9,296
Net assets		
Unrestricted	3,734	1,392
Temporarily restricted	442,245	426,950
Permanently restricted	911,086	864,654
Total net assets	$ 1,357,065	$ 1,292,996

See accompanying notes to financial statements

TERRA COMMUNITY COLLEGE
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
Years ended June 30, 2007 and 2006

	2007	2006
Operating revenues		
Student tuition and fees (net of scholarship allowances of $1,914,047 in 2007 and $1,944,292 in 2006)	$ 4,422,925	$ 4,562,007
Federal grants and contracts	2,852,383	2,857,974
State grants and contracts	251,520	313,194
Sales and services	188,887	195,316
Auxiliary enterprises	1,184,029	1,298,006
Other operating revenues	190,662	258,690
Total operating revenues	9,090,406	9,485,187
Operating Expenses		
Educational and general		
Instructional	5,686,678	5,856,305
Public service	2,036,063	2,187,600
Academic support	493,007	482,938
Student services	938,003	910,941
Institutional support	3,100,374	2,998,494
Operation and maintenance of plant	1,331,217	1,369,829
Student financial aid	129,321	158,035
Depreciation expense	978,789	973,038
Auxiliary enterprises	1,032,460	1,007,959
Total operating expenses	15,725,912	15,945,139
Operating loss	(6,635,506)	(6,459,952)
Nonoperating revenues (expenses)		
State appropriations	6,058,287	6,110,695
Gifts and grants	48,745	20,147
Investment income	283,787	182,796
Interest on indebtedness	(15,380)	(23,393)
Insurance recovery	57,889	--
Other nonoperating expense	(5,579)	(56,531)
Net nonoperating revenues	6,427,749	6,233,714
Income (loss) before capital appropriations	(207,757)	(226,238)
Capital appropriations	59,041	70,105
Change in net assets	(148,716)	(156,133)
Net assets		
Net assets- beginning of year	23,515,523	23,671,656
Net assets- end of year	$ 23,366,807	$ 23,515,523

See accompanying notes to financial statements

TERRA COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
Year ended June 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support				
Contributions	$ 2,744	$ 176,477	$ 46,432	$ 225,653
Contributed services and supplies	84,910	--	--	84,910
Investment return	11,262	121,379	--	132,641
Net assets released from restrictions	282,561	(282,561)	--	--
Total revenues, gains and other support	381,477	15,295	46,432	443,204
Expenses				
Program services				
Scholarships and loans	89,156			89,156
Instructional equipment	47,742			47,742
Other	470			470
Supporting services				
Management and general	42,482			42,482
Fund raising	199,285			199,285
Total expenses	379,135			379,135
Change in net assets	2,342	15,295	46,432	64,069
Net assets				
Net assets - beginning of year	1,392	426,950	864,654	1,292,996
Net assets - end of year	$ 3,734	$ 442,245	$ 911,086	$ 1,357,065

See accompanying notes to financial statements

TERRA COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
Year ended June 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support				
Contributions	$ 1,614	$ 134,018	$ 11,496	$ 147,128
Contributed services and supplies	105,177	--	--	105,177
Investment return	7,463	66,099	--	73,562
Net assets released from restrictions	142,909	(142,909)	--	--
Total revenues, gains and other support	257,163	57,208	11,496	325,867
Expenses				
Program services				
Scholarships and loans	50,043			50,043
Instructional equipment	14,128			14,128
Other	2,336			2,336
Supporting services				
Management and general	61,170			61,170
Fund raising	128,136			128,136
Total expenses	255,813			255,813
Change in net assets	1,350	57,208	11,496	70,054
Net assets				
Net assets - beginning of year	42	369,742	853,158	1,222,942
Net assets - end of year	$ 1,392	$ 426,950	$ 864,654	$ 1,292,996

See accompanying notes to financial statements

TERRA COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
Years ended June 30, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Tuition and fees	$ 4,529,149	$ 4,570,867
Grants and contracts	2,995,185	2,967,560
Other income	379,549	460,870
Auxiliary enterprise receipts	1,184,029	1,298,006
Payments to suppliers	(4,179,545)	(4,428,497)
Payroll and fringe benefits	(10,524,423)	(10,505,661)
Scholarships and fellowships	(129,321)	(158,035)
Net cash from operating activities	(5,745,377)	(5,794,890)
Cash flows from noncapital financing activities		
State appropriations	6,058,287	6,110,695
Grants and contracts other than capital	48,745	20,152
Net cash from noncapital financing activities	6,107,032	6,130,847
Cash flows from capital financing activities		
Purchases of capital assets	(238,564)	(309,936)
Proceeds from disposal of capital assets	--	1,771
Insurance recovery	57,889	--
State appropriations capital	59,041	70,105
Repayment of capital lease	(199,727)	(191,709)
Interest on capital lease	(15,380)	(23,398)
Net cash from financing activities	(336,741)	(453,167)
Cash flows from investing activities		
Change in short-term investments	(94,352)	(1,589,846)
Purchase of investments	(728,377)	(142,074)
Proceeds from sale and maturities of investments	689,917	654,921
Interest on investments	267,498	203,226
Net cash from investing activities	134,686	(873,773)
Net change in cash	159,600	(990,983)
Cash and cash equivalents, beginning of year	3,073,754	4,064,737
Cash and cash equivalents, end of year	$ 3,233,354	$ 3,073,754
Reconciliation of net operating (loss) to net cash from operating activities		
Operating loss	$ (6,635,506)	$ (6,459,952)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation expense	978,789	973,038
Loss on disposal of capital assets	--	6,864
Changes in assets and liabilities		
Receivables	(115,696)	(241,591)
Inventories	60,809	(121,940)
Other assets	24,145	(5,367)
Accounts payable	(139,933)	(36,263)
Accrued salaries and benefits	(26,571)	5,873
Deposits held	(4,616)	37,605
Deferred revenue	113,202	46,843
Net cash from operating activities	$ (5,745,377)	$ (5,794,890)

See accompanying notes to financial statements

TERRA COLLEGE FOUNDATION
STATEMENTS OF CASH FLOWS
Years ended June 30, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Contributions	$ 191,227	$ 151,152
Investment return	52,055	103,772
Scholarship and loan expenditures	(89,156)	(50,043)
Purchase of equipment for Terra Community College	(47,742)	(14,128)
Payments to suppliers	(132,389)	(154,992)
Net cash from operating activities	(26,005)	35,761
Cash flows from investing activities		
Proceeds from sale of long-term investments	1,396,805	470,537
Purchase of long-term investments	(1,436,268)	(493,231)
Net cash from investing activities	(39,463)	(22,694)
Cash flows from financing activities		
Proceeds from contributions restricted for long-term purposes	46,432	11,496
Net cash from financing activities	46,432	11,496
Net change in cash	(19,036)	24,563
Cash and cash equivalents, beginning of period	346,657	322,094
Cash and cash equivalents, end of period	$ 327,621	$ 346,657

	2007	2006
Reconciliation of net operating revenues (expenses) to net cash from operating activities		
Change in net assets	$ 64,069	$ 70,054
Adjustments to reconcile change in net assets to net cash from operating activities		
Unrealized and realized (gain)/loss on investments	(79,370)	39,620
Change in contributions receivable	12,006	15,520
Contributions restricted for long-term purposes	(46,432)	(11,496)
Change in assets and liabilities		
Accounts receivable	(1,217)	69,830
Accounts payable	24,939	(68,527)
Net cash from operating activities	$ (26,005)	$ 35,761

See accompanying notes to financial statements

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 basic financial 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.

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). Terra Community College also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. 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)

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, 2007 and 2006, 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)

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)

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 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.

Termination Benefits: In 2006, Government Accounting Standards Board Statement No. 47, *Accounting for Termination Benefits* became effective. Currently, the College provides no benefits required to be recognized by this statement.

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, 2006, to conform to classifications used for the year ended June 30, 2007.

Recent Accounting Pronouncements: In June 2004, the GASB issued Statement No. 45, "Accounting and Financial Reporting by Employees for Postemployment Benefits Other Than Pensions." This statement establishes standards for the measurement, recognition, and display of other postemployment benefit expenses/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of employers subject to governmental accounting standards. The provisions of this statement are effective for financial statements for fiscal periods beginning after December 15, 2006. Because the College participates only in state sponsored postemployment benefit plans, the adoption of this statement requires certain additional disclosures in the footnotes but has no other impact on the financial statements.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In September 2006, the GASB issued Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues." Governmental entities sometimes exchange an interest in their expected future cash flows from collecting specific receivables or specific revenues for immediate cash payments. This statement establishes criteria that the entity will used to ascertain whether the proceeds received should be reported as revenue or as a liability. The statement also includes guidance to be used for recognizing other assets and liabilities arising from the sale of specific receivables or future revenues, including residual interests and recourse provisions. The provisions of this statement are effective for financial statements for fiscal periods beginning after December 15, 2006. The College does not anticipate that this statement will have a material effect on its financial statements.

In November 2006, the GASB issued Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations." This statement addresses accounting and reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current operations and future remediation activities that are required upon retirement of an asset. The provisions of this statement are effective for financial statements for fiscal periods beginning after December 15, 2007. The College has not yet evaluated the impact that the adoption of this statement will have on its financial statements.

In May 2007, the GASB issued Statement No. 50, "Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27. " This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information by pension plans and by employers that provide pension benefits. The provisions of this statement are effective for financial statements for fiscal periods beginning after June 15, 2007. Because the College participates in only State sponsored postemployment benefit plans, the adoption of this statement requires certain additional disclosures in the footnotes but has no other impact on the financial statements.

In June 2007, the GASB issued Statement No. 51, "Accounting and Financial Reporting for Intangible Assets." This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. The statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. The provisions of this statement are effective for financial statements for fiscal periods beginning after June 15, 2009. The

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

College has not yet evaluated the impact that the adoption of this statement will have on its financial statements.

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.

Deposits: At June 30, 2007, the carrying amount of the College's deposits in all funds was $3,231,584 (which consists of cash, excluding cash on hand of $1,770) and the bank balance was $3,527,125. The difference between carrying amount and bank balance was primarily due to outstanding checks at June 30, 2007. 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 $3,427,125 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 $2,985,036 and $2,835,934 (amortized cost basis of $2,968,747 and $2,856,364) at June 30, 2007 and 2006. The College's investments include the following:

	2007	2006
Money market	$ 228,365	$ 214,134
Certificates of deposit	314,233	303,109
U.S. agency obligations (CMO's)	1,071,170	1,016,419
	$ 1,613,768	$ 1,533,662

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

The U.S. Agency Obligations 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 $1,371,268 and $1,302,272 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, 2007 and 2006. 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 tranches of CMOs outstanding have average maturities ranging from 0.21 years to 2.01 years at June 30, 2007 and 0.11 years to 1.95 years at June 30, 2006.

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.

NOTE 3 - ACCOUNTS RECEIVABLE

Receivables at June 30, 2007 consisted of accounts (tuition and other fees), notes, interest and intergovernmental grants. All intergovernmental receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds. All other receivables, which are primarily student tuition and fees, are net of allowances for doubtful accounts of $290,906 and $304,388 as of June 30, 2007 and 2006.

(Continued)

NOTE 4 - CAPITAL ASSETS
Capital assets at June 30, 2007 and 2006 are summarized as follows:

Description	July 1, 2006	Additions	Deletions	June 30, 2007
Land	$ 302,404	$ --	$ --	$ 302,404
Improvements	2,572,245	--	--	2,572,245
Buildings	24,378,826	89,016	(68,924)	24,398,918
Equipment, furniture and books	7,048,314	269,918	(81,500)	7,236,732
Construction in progress	77,021	--	(77,021)	--
Total	34,378,810	$ 358,934	$ (227,445)	34,510,299
Accumulated depreciation	(16,634,446)	$ (978,789)	$ 101,494	(17,511,741)
Capital assets, net	$ 17,744,364			$ 16,998,558

	July 1, 2005	Additions	Deletions	June 30, 2006
Land	$ 302,404	$ --	$ --	$ 302,404
Improvements	2,572,245	--	--	2,572,245
Buildings	24,368,323	10,503	--	24,378,826
Equipment, furniture and books	6,902,545	165,881	(20,112)	7,048,314
Construction in progress	--	77,021	--	77,021
Total	34,145,517	$ 253,405	$ (20,112)	34,378,810
Accumulated depreciation	(15,672,885)	$ (973,038)	$ 11,477	(16,634,446)
Capital assets, net	$ 18,472,632			$ 17,744,364

(Continued)

NOTE 4 - CAPITAL ASSETS (Continued)

In June of 2007 the Student Activity building roof was damaged by a hail storm. An impairment loss to the building in the amount of $48,936 was recorded at June 30, 2007. The College has entered into a contract for roof improvements approximating $100,000 which is expected to be completed in 2008.

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 2007 and 2006 the College received capital project appropriations of $59,041 and $70,105 for building renovations.

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.

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)

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, 2007, 2006, and 2005 were $526,956, $531,884, and $527,591 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, 2007, 2006, and 2005 were $529,703, $540,109, and $535,107 respectively.

(Continued)

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, 2006 (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 $37,850 and $38,000 during fiscal years 2007 and 2006, respectively. The balance in the Health Care Reserve Fund was $3.5 billion on June 30, 2006 (the latest information available).

For the year ended June 30, 2006 (the latest information available), net health care costs paid by STRS were $283 million and STRS had approximately 119,000 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, must pay a portion of their premium for health care. The portion is based on years of service with a minimum of 17.5% and a maximum of 100% 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, 2006 (the latest information available) the allocation rate was 3.42%. 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 2006 (the latest information available), the minimum pay has been established at $35,800. 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.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2006 were $158,751,207. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006, the value of the health care fund was $295.6 million, which is about 221% of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claims costs. The number of participants currently receiving health care benefits is approximately 59,492. The portion of the employer contributions that were used to fund post employment benefits was $185,700 and $187,600 for 2007 and 2006.

(Continued)

NOTE 9 – OPERATING EXPENSES BY NATURAL CLASSIFICATION

The College's operating expenses by natural classification were as follows for the years ended June 30, 2007 and 2006:

	2007	2006
Salaries and wages	$ 7,791,301	$ 7,978,395
Employee benefits	2,706,550	2,533,140
Utilities	548,548	563,678
Supplies and other services	3,571,403	3,738,853
Depreciation	978,789	973,038
Student scholarships and financial aid	129,321	158,035
	$ 15,725,912	$ 15,945,139

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 Medical Mutual of Ohio 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)

NOTE 11 – NONCURRENT LIABILITIES

Noncurrent liabilities at June 30, 2007 and 2006 are summarized as follows:

	July 1, 2006	Current Additions	Reductions	June 30, 2007	Non Current Portion	Current Portion
Lease obligations						
Capital lease obligations	$ 464,012	$	$ (199,727)	$ 264,285	$ 66,409	$197,876
Total lease obligations	464,012		(199,727)	264,285	66,409	197,876
Other liabilities						
Compensated absences	702,402	337,914	(364,486)	675,830	359,430	316,400
Total other liabilities	702,402	337,914	(364,486)	675,830	359,430	316,400
Total noncurrent obligations	$ 1,166,414	$ 337,914	$ (564,213)	$ 940,115	$ 425,839	$514,276

	July 1, 2005	Additions	Reductions	June 30, 2006	Non Current Portion	Current Portion
Lease obligations						
Capital lease obligations	$ 655,721	$ -	$ (191,709)	$ 464,012	$ 264,285	$199,727
Total lease obligations	655,721	-	(191,709)	464,012	264,285	199,727
Other liabilities						
Compensated absences	696,528	345,502	(339,628)	702,402	352,303	350,099
Total other liabilities	696,528	346,502	(339,628)	702,402	352,303	350,099
Total noncurrent obligations	$ 1,352,249	$ 345,502	$ (531,337)	$ 1,166,414	$ 616,588	$549,826

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)

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, 2006:

Year	
2008	$ 204,898
2009	67,057
Total minimum lease payment	271,955
Less: amount representing interest	(7,670)
Present value of future minimum lease payments	$ 264,285

The cost of equipment under capital leases was $1,009,207 with the final purchases made in 2006. Accumulated depreciation on equipment under capital leases for 2007 and 2006 was $457,687 and $318,740.

NOTE 12 - CONTINGENCIES

At June 30, 2007, 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.

(Continued)

NOTE 13 - COMPONENT UNIT DISCLOSURE (Continued)

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:

	2007	2006
Money market funds	$ 64,673	$ 40,249
Debt securities	130,133	148,038
Equity securities	714,860	602,545
	$ 909,666	$ 790,832

During the years ended June 30, 2007 and 2006, the Foundation made contributions of approximately $137,000 and $66,500, 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, 2007

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass-Through Entity Number	Federal CFDA Number	Receipts Recognized	Program Expenditures
U.S. Department of Education				
Student Financial Aid Cluster				
Pell Grant – Financial Aid	Direct	84.063	$ 1,589,891	$ 1,589,891
Pell Grant – Adm. Allowance	Direct	84.063	4,335	4,335
Total Pell Grant			1,594,226	1,594,226
Federal Supplemental Educational Opportunity Grant	Direct	84.007	110,124	110,124
Federal Work Study	Direct	84.033	82,929	82,929
Federal Family Education Loans	Direct	84.032	1,985,971	1,985,971
Academic Competitiveness Grant	Direct	84.375	8,425	8,425
Total Student Financial Aid Cluster			3,781,675	3,781,675
Child Care				
Childcare Access Means Parents in School	Direct	84.335A	2,329	2,329
Pass-through Ohio Department of Education				
Perkins Grant	VEC PII-P2007-509	84.048	46,352	46,352
Tech Prep	VETP-2007-18	84.243	164,843	164,843
Total Ohio Department of Education			211,195	211,195
Pass-through Ohio Bureau of Vocational Rehabilitation				
Rehabilitation Services Basic Support	DLM 98094	84.126	24,615	24,615
Total U.S. Department of Education			4,019,814	4,019,814
U.S. Department of Labor				
Pass-through Ohio Department of Job & Family Services				
Workforce Investment Act	48621	17.258	482,141	482,141
	48621	17.259	36,123	36,123
	48621	17.260	145,241	145,241
Pass-through Ohio Department of Employment Services				
Training Readjustment Act	6170	17.245	43,019	43,019
Total U.S. Department of Labor			706,524	706,524

TERRA COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2007

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass-Through Entity Number	Federal CFDA Number	Receipts Recognized	Program Expenditures
U.S. Department of Health & Human Services				
Administration for Children & Families	126-53	93.558	$ 3,396	$ 3,396
	163-53	93.558	2,551	2,551
	227-53	93.558	279	279
	253-53	93.558	4,143	4,143
	257-53	93.558	1,677	1,667
	499-53	93.558	39,281	39,281
Pass-through Ohio Board of Regents				
TANF Educational Awards Program	G994235	93.558	97,810	97,810
Total U.S. Department of Health & Human Services			149,137	149,137
U.S. Department of Veteran's Affairs				
Veteran's Rehabilitation	14923435	64.116	41,927	41,927
Small Business Administration				
Pass-through Ohio Department of Development				
Small Business Administration Center	56080	59.037	84,196	84,196
Total Federal Expenditures			$ 5,001,598	$ 5,001,598

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General:

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the Terra Community College. The Terra Community College reporting entity is defined in Note 1 to the Terra Community College's financial statements.

Basis of Accounting:

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the Terra Community College's financial statements.

Loans and Loan Guarantees:

The College is a participant in the Federal Family Educational Loan Program. The amount presented represents the value of new loans awarded during the year.

NOTE 2 – TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

Temporary Assistance to Needy Families, CFDA No. 93.558, represents TEAP (TANF Educational Awards Program) funds administered by the Ohio Board of Regents. The program includes commingled federal and state funds and the amount presented on the Schedule of Expenditures of Federal Awards includes both federal and state portions.

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	______ Yes	__X__ No
Significant deficiencies identified not considered to be material weaknesses?	______ Yes	__X__ None Reported
Noncompliance material to financial statements noted?	______ Yes	__X__ No

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?	_____ Yes	__X__ No
Significant deficiencies identified not considered to be material weaknesses?	__X__ Yes	_______ None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	__X__ Yes	_______ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
	Student Financial Aid Cluster:
84.063	Federal Pell Grant Program
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.375	Academic Competitiveness Grant
84.032	Federal Family Education Loans
	Workforce Investment Act Cluster
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers

(Continued)

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

Auditee qualified as low-risk auditee? __X__ Yes ______ No

Section II - Financial Statement Findings

There were no findings for the year ended June 30, 2007.

Section III - Federal Award Findings

FINDING 07-01

Federal program information:	Federal Pell Grant Program, CFDA No. 84.063, Federal Supplemental Educational Opportunity Grant, CFDA No. 84.007, Academic Competitiveness Grant, CFDA No. 84.375, National and Mathematics Access to Retain Talent Grant, CFDA No. 84.376, and Federal Family Education Loan Program, CFDA No. 84.032
Criteria:	34 CFR 668.22 (f)(2)(i) – "The total number of calendar days in a payment period or period of enrollment includes all days within the period, except that scheduled breaks of at least five consecutive days are excluded from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in that period."
Condition:	The College did not subtracted breaks of 5 days or more when calculating the number of days in the enrollment period.
Questioned Costs:	Based on the amounts that should have been returned for our sample, we calculated that the College returned $735.16 more than what was required .
Context:	This is the first year that the College has been on semesters. In the prior years the College was on a quarter system and did not have breaks during the enrollment the periods.
Recommendation:	We recommend that when changing policies, the College review all related compliance requirements that are affected in the change.
Management's response:	The College concurs with the finding.
Corrective actions taken or to be taken:	The change to the semester calendar created in term breaks of 5 days of more that did not exist in the prior quarter calendar. The College recalculated all the return of federal student aid processed in FY07. The College adjusted accounts for Pell Grant funds earned by students, and used institutional funds to correct student accounts for loan amounts earned. The total adjustments for all impacted students due to recalculations were $971.55. The College is now excluding the breaks of 5 days or more in the return of federal student aid calculations.

(Continued)

FINDING 07-02

Federal program information:	Federal Pell Grant Program, CFDA No. 84.063, Federal Supplemental Educational Opportunity Grant, CFDA No. 84.007, Academic Competitiveness Grant, CFDA No. 84.375, National and Mathematics Access to Retain Talent Grant, CFDA No. 84.376, and Federal Family Education Loan Program, CFDA No. 84.032
Criteria:	34 CFR 668.57(a) – "Acceptable documentation. (a) Adjusted Gross Income (AGI), income earned from work, and U.S. income tax paid… (1) Except as provided in paragraphs (a)(2), (a)(3), and (a)(4) of this section, an institution shall require an applicant selected for verification to verify AGI and U.S. income tax paid by submitting to it, if relevant-- (i) A copy of the income tax return of the applicant, his or her spouse, and his or her parents. The copy of the return must be signed by the filer of the return or by one of the filers of a joint return."
Condition:	We noted 5 out of 40 students selected for verification did not have a signed copy of his/her tax return.
Questioned Costs:	The total amount of federal aid disbursed to the 5 students is $12,225.
Context:	We noted that the tax returns for each student selected were obtained, but there were 5 returns obtained that were not signed.
Recommendation:	We recommend that the College required signed copies of tax returns when compiling documentation for verification.
Management's response:	The College concurs with the finding.
Corrective actions taken or to be taken:	The College will review procedures regarding the request and review of verification documents, emphasizing the need for manual signatures on electronic tax filing documents.

(Continued)

FINDING 07-03

Federal program information:	Academic Competitiveness Grant, CFDA No. 84.375
Criteria:	The 2007-08 Federal Student Aid (FSA) Handbook, Volume 1 (*Student Eligibility*), Chapter 6 (*ACG and National SMART Grant Eligibility*) indicates: To receive an ACG, students must: 1. be U.S. citizens (unlike with other FSA programs, they cannot be noncitizens); 2. receive a Pell grant for the same award year; 3. be enrolled full time in an associate's, bachelor's, or combined undergraduate/graduate (if it includes at least three years of under-graduate education) degree program or in a two-academic-year program acceptable for full credit toward a bachelor's degree; 4. be enrolled in the first or second academic year of a program of study at an eligible two-year or four-year degree-granting institution; 5. have successfully completed a rigorous secondary school program of study and graduated after January 1, 2006, for first-year students and after January 1, 2005, for second-year students; and 6. if first-year students, not have been enrolled while still in high school as regular students in an ACG-eligible college program, or if second-year students, have successfully completed their first year and have a cumulative GPA* of at least 3.0 on a 4.0 scale.
Condition:	In our testing of eligibility for students receiving the Academic Competitiveness Grant, we noted 1 student that received the grant, that did not meet the eligibility requirements.
Questioned Costs:	The amount of ACG disbursed to the ineligible student is $375.
Context:	This is the first year of the ACG program.
Recommendation:	We recommend that the College review is policies and procedures for awarding the Academic Competitiveness Grant and implement documented procedures to determine student eligibility.
Management's response:	The College concurs with the finding.
Corrective actions taken or to be taken:	The College returned the $375 Academic Competitiveness Grant to the aid program and issued $375 in institutional aid to the student's account to replace it. There are now published guidelines for administering the Academic Competitiveness Grant that were not available for the FY 2007.

(Continued)

FINDING 07-04

Federal program information:	Federal Pell Grant Program, CFDA No. 84.063, Federal Supplemental Educational Opportunity Grant, CFDA No. 84.007, Academic Competitiveness Grant, CFDA No. 84.375, National and Mathematics Access to Retain Talent Grant, CFDA No. 84.376, and Federal Family Education Loan Program, CFDA No. 84.032
Criteria:	College's Satisfactory Academic Progress policy on page 15 of the 2006-2007 course catalog, the minimum quality and quantity standards for 31-40 hours attempted are 1.8 Minimum Cumulative GPA and Minimum Completion Rate of 67%. The minimum quality and quantity standards for 41-50 semester hours attempted are 1.9 Minimum Cumulative GPA and Minimum Completion Rate of 67%.
Condition:	In our testing of student eligibility, we noted one student that received federal aid after he did not maintain satisfactory academic progress.
Questioned Costs:	The amount disbursed to the student after becoming ineligible is $1,265.50.
Context:	We reviewed the report of students not maintaining satisfactory progress from the student system and noted that the student was not included on the listing for Spring 2006.
Recommendation:	We recommend that the College follow the policy of Satisfactory Academic Progress as outlined in the College Course Catalogue.
Management's response:	The College concurs with the finding.
Corrective actions taken or to be taken:	The College will incorporate manual checks to verify the completeness of information in the automated Satisfactory Academic Progress report.

Section IV –Prior Year Findings and Questioned Costs

There were no findings for the year ended June 30, 2006.

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 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 year ended June 30, 2007, which collectively comprise the College's basic financial statements and have issued our report thereon dated the same date as this report. 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 Terra Community College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Terra Community College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Terra Community College's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Terra Community 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 07-01 through 07-04.

We noted certain matters that we reported to management of Terra Community College in a separate letter dated October 15, 2007.

Terra Community College's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Terra Community College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Trustees, federal awarding agencies and pass-through entities and others within the entity, 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
October 15, 2007

Crowe Chizek and Company LLC
Member Horwath International

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON 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 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, 2007. Terra Community 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 Terra Community College's management. Our responsibility is to express an opinion on Terra Community 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 Terra Community 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 of Terra Community College's compliance with those requirements.

In our opinion, Terra Community 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, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 07-01, 07-02, 07-03, and 07-04.

Internal Control Over Compliance

The management of Terra Community College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Terra Community College's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 07-01 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

We noted certain matters that we reported to management of Terra Community College in a separate letter dated October 15, 2007.

Terra Community College's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Terra Community College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of, management, the Board of Trustees, federal awarding agencies and pass-through entities and others within the entity, 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
October 15, 2007

Mary Taylor, CPA
Auditor of State

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 24, 2007

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