

Terra Community College  
Sandusky County, Ohio

Single Audit

July 1, 2007, through June 30, 2008  
Fiscal Year Audited Under GAGAS: 2008



**Balestra, Harr & Scherer, CPAs, Inc.**

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# Mary Taylor, CPA

Auditor of State

Board of Trustees  
Terra Community College  
2830 Napoleon Drive  
Fremont, Ohio 43420

We have reviewed the *Independent Accountants' Report* of the Terra Community College, Sandusky County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2007 through June 30, 2008. 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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

December 2, 2008

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**TERRA COMMUNITY COLLEGE**

Sandusky County

ANNUAL REPORT

June 30, 2008 and 2007

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Ohio Society of Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Terra Community College (the College), which is a component unit of the state of Ohio, as of and for the year ended June 30, 2008, 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 opinions on these basic financial statements based on our audit. The Statement of Net Assets of the business-type activities and the discretely presented component unit of the College as of June 30, 2007 and the related Statement of Activities and Cash Flows for the year then ended were audited by other auditors whose report dated October 15, 2007 expressed an unqualified opinion.

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 basic 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 financial position of the business-type activities and the discretely presented component unit of the College, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

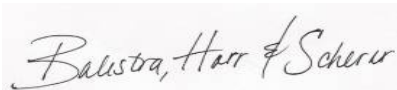
In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2008, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other 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 the results of our audit.

The Management's Discussion and Analysis 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.

Board of Trustees  
Terra Community College  
REPORT OF INDEPENDENT ACCOUNTANTS  
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The accompanying schedule of federal awards expenditures 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. The schedule of federal awards expenditures has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

As described in Note 3, the College implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" and GASB Statement No. 50, "Pension Disclosures – An Amendment of GASB Statements number 25 and 27".



Balestra, Harr & Scherer, CPAs, Inc.  
October 9, 2008

TERRA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008 and 2007

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**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, 2008 with selected comparative information for the years ended June 30, 2007 and 2006. 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 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.

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TERRA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008 and 2007

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**Condensed Financial Information**

**Statement of Net Assets**  
(in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Assets</b>			
Current assets	\$ 8,137	\$ 7,545	\$ 7,261
Capital assets, net	16,273	16,999	17,744
Other noncurrent assets	<u>1,337</u>	<u>1,071</u>	<u>1,016</u>
Total assets	<u>25,747</u>	<u>25,615</u>	<u>26,021</u>
<b>Liabilities</b>			
Current liabilities	1,861	1,822	1,889
Noncurrent liabilities	<u>359</u>	<u>426</u>	<u>616</u>
Total liabilities	<u>2,220</u>	<u>2,248</u>	<u>2,505</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	16,207	16,734	17,280
Restricted			
Expendable	1,414	1,194	829
Unrestricted	<u>5,906</u>	<u>5,438</u>	<u>5,406</u>
Total net assets	<u>\$ 23,527</u>	<u>\$ 23,366</u>	<u>\$ 23,515</u>

**Assets:** As of June 30, 2008 the College's total assets amount to approximately \$25.7 million. Investment in capital assets, net of depreciation, represented the College's largest asset, totaling \$16.3 million or 63 percent of total assets. Cash and cash equivalents and investments, totaling \$7.1 million or 28 percent of total assets, were the College's next largest asset. Cash and investments increased by approximately \$884 thousand in 2008, compared to a \$308 thousand increase in 2007.

**Liabilities:** At June 30, 2008 the College's liabilities totaled approximately \$2.2 million. Accounts payable and accrued liabilities represented \$892 thousand or 40 percent, of total liabilities. Total liabilities decreased \$28 thousand during the year ended June 30, 2008. This was primarily due to payments on capital leases which were offset by an increase in deferred revenue.

**Net Assets:** Net assets at June 30, 2008 totaled approximately \$23.5 million or 91 percent of total assets. Net assets invested in capital assets totaled \$16.2 million or 69 percent, of total net assets. Restricted and unrestricted net assets represented 6 percent and 25 percent of total net assets, respectively. Total net assets increased by \$160 thousand during the year ended June 30, 2008 and decreased by \$149 thousand for the year ended June 30, 2007.

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TERRA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008 and 2007

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

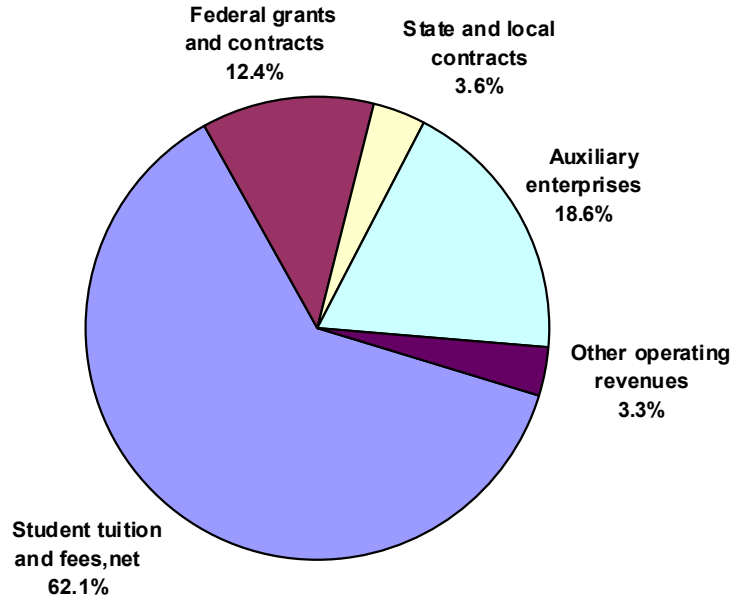
	<u>2008</u>	<u>2007*</u>	<u>2006*</u>
Operating revenue			
Tuition and fees	\$ 4,819	\$ 4,423	\$ 4,562
Government grants	1,238	1,308	1,373
Auxiliary services	1,268	1,184	1,493
Other operating revenue	<u>433</u>	<u>379</u>	<u>259</u>
Total operating revenue	<u>7,758</u>	<u>7,294</u>	<u>7,687</u>
Operating expenses			
Educational and general	14,534	13,715	13,964
Auxiliary expenses	1,094	1,032	1,008
Depreciation	<u>895</u>	<u>979</u>	<u>973</u>
Total operating expenses	<u>16,523</u>	<u>15,726</u>	<u>15,945</u>
Operating loss	(8,765)	(8,432)	(8,258)
Nonoperating revenue (expenses)			
State appropriations	6,302	6,058	6,111
Federal grants	2,286	1,796	1,798
Gifts and grants	5	49	20
Investment income	236	284	183
Insurance recovery	--	58	--
Other nonoperating	<u>(207)</u>	<u>(21)</u>	<u>(80)</u>
Total nonoperating revenue	<u>8,622</u>	<u>8,224</u>	<u>8,032</u>
Capital appropriations	<u>303</u>	<u>59</u>	<u>70</u>
Change in net assets during year	<u>\$ 160</u>	<u>\$ (149)</u>	<u>\$ (156)</u>

\* Certain reclassifications have been made for comparability purposes.

TERRA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008 and 2007

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**OPERATING REVENUES**



Total operating revenues were approximately \$7.8 million the year ended June 30, 2008. The most significant sources of operating revenue for the College are net student tuition and fees (62.1 percent), auxiliary enterprise revenue (18.6 percent), and federal grants and contracts (12.4 percent).

Tuition and fees continued to be the largest source of operating revenues for the College. Tuition revenue increased 9% primarily from a rise in enrollment. The College's full time equivalent (FTE) students for FY08 were 1,552 while in FY07 the total was 1,347 and for FY06 the total was 1,493. Over the past five years, the annual FTE average has been approximately 1,500. Auxiliary enterprises revenue from the College bookstore was impacted by higher enrollment with an increase of 7% from 2007. In 2008 state grant revenue remained consistent at approximately 3% of operating revenues.

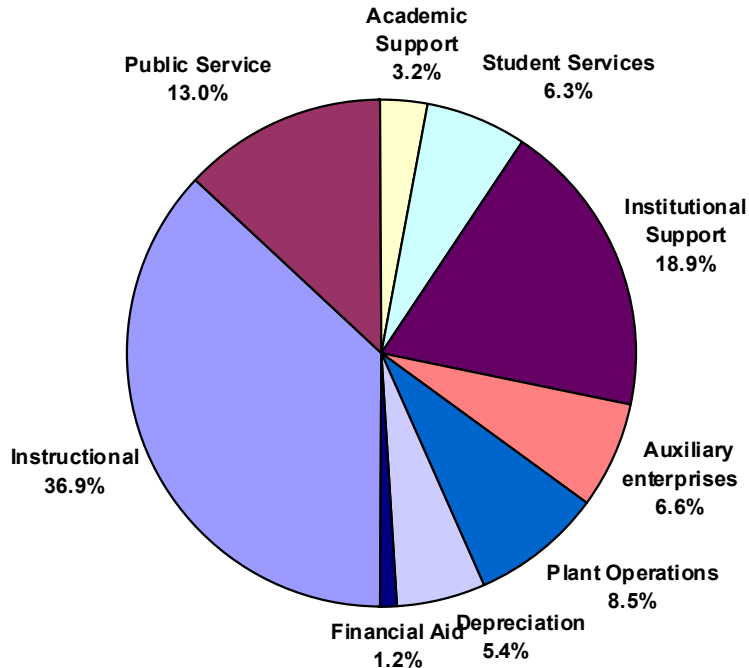
State appropriations, which is considered nonoperating revenue as defined by GASB 35, is a significant recurring source of revenue essential to the operation of the College. The College's state appropriation for the year ended June 30, 2008, amounted to \$6.3 million. This represents an increase of \$244 thousand or 4% from the College's appropriation for the prior year. In 2007, the appropriation decreased \$53 thousand or 1% in comparison to 2006.

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TERRA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008 and 2007

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**OPERATING EXPENSES**



Operating expenses, including \$895 thousand of depreciation, totaled approximately \$16.5 million as compared to \$15.7 million in 2007 and \$15.9 million in 2006. The majority of the College's operating funds are expended directly for the primary mission of the College - instruction (36.9 percent), institutional support (18.9 percent) and public service (13.0 percent). This combined 68.8 percent compares with 68.8 percent in 2007 and 69.3 percent in 2006.

Total operating expenses increased 5.1% from 2007 with instruction expenses increasing \$405 thousand. Increased enrollment resulted in additional adjunct faculty and classroom supply costs. Total operating expenses had decreased 1.4% from 2006 to 2007.

For the year ended June 30, 2008, student financial aid related to tuition and fees totaled \$2.5 million, including scholarship allowance of \$2.3 million and student aid expense of \$200 thousand. In 2008 student financial aid increased by 24.3% in total from the prior year. For the year ended 2007 student financial aid was \$2.0 million as compared to \$2.1 million in 2006.

TERRA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008 and 2007

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**Statement of Cash Flows**  
(in thousands)

	<u>2008</u>	<u>2007*</u>	<u>2006*</u>
Net cash provided (used) by:			
Operating activities	\$ (7,674)	\$ (7,541)	\$ (7,593)
Noncapital financing activities	8,593	7,903	7,929
Capital financing activities	(272)	(337)	(453)
Investing activities	<u>(709)</u>	<u>134</u>	<u>(874)</u>
 Net increase/(decrease) in cash	(62)	159	(991)
 Cash-beginning of year	<u>3,233</u>	<u>3,074</u>	<u>4,065</u>
 Cash-end of year	<u>\$ 3,171</u>	<u>\$ 3,233</u>	<u>\$ 3,074</u>

\*Certain reclassifications have been made for comparability purposes.

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 (\$4.9 million) and auxiliary enterprises (\$1.3 million). The largest cash payments for operating activities were to employees, for wages and benefits, (\$11.1 million) and to suppliers (\$4.5 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 \$16.3 million at June 30, 2008, a net decrease of \$725 thousand over the prior year-end. This compares with a decrease of \$746 thousand in 2007 from 2006. Additions to capital assets during the year totaled \$170 thousand primarily as a result of a roof repair.

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TERRA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008 and 2007

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**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 FY09 is projected at \$6.0 million which is 4.0% above the funding received in FY08. The State 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 compliance with the Higher Education Compact with the State of Ohio tuition was not increased for Summer or Fall 2008 semesters. Known expense increases for FY09 include an average of a 2.25% salary increase for faculty and staff, and a medical insurance increase of approximately 12%.

The College experienced a 15% increase in full-time equivalent students from 1,347 FTE in 2007 to 1,552 in 2008. Both Summer and Fall terms in FY09 continue to 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, 2008 and 2007

<b>Assets</b>	<u>2008</u>	<u>2007</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 3,170,826	\$ 3,233,354
Short-term investments	2,697,762	1,913,867
Intergovernmental receivable	210,066	185,144
Due from State of Ohio	30,439	205,439
Loans receivable, net	58,381	48,071
Other receivables	1,510,003	1,587,465
Inventory	345,004	326,891
Other current assets	<u>114,437</u>	<u>44,961</u>
Total current assets	<u>8,136,918</u>	<u>7,545,192</u>
<b>Noncurrent assets</b>		
Investments	1,233,626	1,071,169
Other Assets	103,620	--
Capital assets, gross	34,679,989	34,510,299
Accumulated depreciation	<u>(18,406,645)</u>	<u>(17,511,741)</u>
Capital assets, net	<u>16,273,344</u>	<u>16,998,558</u>
Total noncurrent assets	<u>17,610,590</u>	<u>18,069,727</u>
Total assets	<u>25,747,508</u>	<u>25,614,919</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	892,255	914,281
Deferred revenue	579,940	393,716
Capital lease obligation, current	66,409	197,876
Compensated absences, current	<u>322,225</u>	<u>316,400</u>
Total current liabilities	<u>1,860,829</u>	<u>1,822,273</u>
<b>Noncurrent liabilities</b>		
Capital lease obligation, noncurrent	--	66,409
Compensated absences, noncurrent	<u>359,491</u>	<u>359,430</u>
Total noncurrent liabilities	<u>359,491</u>	<u>425,839</u>
Total liabilities	<u>2,220,320</u>	<u>2,248,112</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	16,206,935	16,734,273
Expendable		
Other	258,641	226,997
Capital projects	1,155,752	967,443
Unrestricted	<u>5,905,860</u>	<u>5,438,094</u>
Total net assets	<u>\$ 23,527,188</u>	<u>\$ 23,366,807</u>

See accompanying notes to financial statements

TERRA COLLEGE FOUNDATION  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2008 and 2007

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<b>Assets</b>	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 368,519	\$ 327,621
Contributions receivable	565,722	90,666
Other accounts receivable	82,327	63,348
Investments	<u>1,260,962</u>	<u>909,666</u>
Total assets	<u>2,277,530</u>	<u>1,391,301</u>
 <b>Liabilities</b>		
Accounts payable	<u>9,675</u>	<u>34,236</u>
Total liabilities	<u>9,675</u>	<u>34,236</u>
 <b>Net assets</b>		
Unrestricted	117,860	3,734
Temporarily restricted	506,431	442,245
Permanently restricted	<u>1,643,564</u>	<u>911,086</u>
Total net assets	<u>\$ 2,267,855</u>	<u>\$ 1,357,065</u>

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See accompanying notes to financial statements



TERRA COMMUNITY COLLEGE  
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Operating revenues</b>		
Student tuition and fees (net of scholarship allowances of \$2,340,386 in 2008 and \$1,914,047 in 2007)	\$ 4,819,168	\$ 4,422,925
Federal grants and contracts	959,967	1,056,679
State grants and contracts	277,639	251,520
Sales and services	171,393	188,887
Auxiliary enterprises	1,268,244	1,184,029
Other operating revenues	<u>261,475</u>	<u>190,662</u>
Total operating revenues	<u>7,757,886</u>	<u>7,294,702</u>
<b>Operating Expenses</b>		
Educational and general		
Instructional	6,092,106	5,686,678
Public service	2,154,172	2,036,063
Academic support	532,898	493,007
Student services	1,033,096	938,003
Institutional support	3,115,404	3,100,374
Operation and maintenance of plant	1,405,348	1,331,217
Student financial aid	200,367	129,321
Depreciation expense	894,904	978,789
Auxiliary enterprises	<u>1,094,419</u>	<u>1,032,460</u>
Total operating expenses	<u>16,522,714</u>	<u>15,725,912</u>
Operating loss	<u>(8,764,828)</u>	<u>(8,431,210)</u>
<b>Nonoperating revenues (expenses)</b>		
State appropriations	6,302,255	6,058,287
Federal grants	2,285,570	1,795,704
Gifts and grants	5,061	48,745
Investment income	236,724	283,787
Interest on indebtedness	(7,022)	(15,380)
Insurance recovery	--	57,889
Other nonoperating expense	<u>(200,213)</u>	<u>(5,579)</u>
Net nonoperating revenues	<u>8,622,375</u>	<u>8,223,453</u>
Income (loss) before capital appropriations	(142,453)	(207,757)
Capital appropriations	<u>302,834</u>	<u>59,041</u>
Change in net assets	160,381	(148,716)
<b>Net assets</b>		
Net assets- beginning of year	<u>23,366,807</u>	<u>23,515,523</u>
Net assets- end of year	<u>\$ 23,527,188</u>	<u>\$ 23,366,807</u>

See accompanying notes to financial statements

TERRA COLLEGE FOUNDATION  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2008

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	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
<b>Revenues, gains and other support</b>				
Contributions	\$ 114,789	\$ 360,224	\$ 732,478	\$ 1,207,491
Contributed services and supplies	110,746	--	--	110,746
Investment return	15,511	(72,022)	--	(56,511)
Net assets released from restrictions	<u>224,016</u>	<u>(224,016)</u>	<u>--</u>	<u>--</u>
Total revenues, gains and other support	465,062	64,186	732,478	1,261,726
 <b>Expenses</b>				
Program services				
Scholarships and loans	86,497	--	--	86,497
Other	3,674	--	--	3,674
Supporting services				
Management and general	59,709	--	--	59,709
Fund raising	<u>201,056</u>	<u>--</u>	<u>--</u>	<u>201,056</u>
Total expenses	<u>350,936</u>	<u>--</u>	<u>--</u>	<u>350,936</u>
 Change in net assets	114,126	64,186	732,478	910,790
 <b>Net assets</b>				
Net assets - beginning of year	<u>3,734</u>	<u>442,245</u>	<u>911,086</u>	<u>1,357,065</u>
Net assets - end of year	<u>\$ 117,860</u>	<u>\$ 506,431</u>	<u>\$ 1,643,564</u>	<u>\$ 2,267,855</u>

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See accompanying notes to financial statements

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

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	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
<b>Revenues, gains and other support</b>				
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	<u>282,561</u>	<u>(282,561)</u>	<u>--</u>	<u>--</u>
Total revenues, gains and other support	381,477	15,295	46,432	443,204
 <b>Expenses</b>				
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	<u>199,285</u>			<u>199,285</u>
Total expenses	<u>379,135</u>			<u>379,135</u>
 Change in net assets	2,342	15,295	46,432	64,069
 <b>Net assets</b>				
Net assets - beginning of year	<u>1,392</u>	<u>426,950</u>	<u>864,654</u>	<u>1,292,996</u>
Net assets - end of year	<u>\$ 3,734</u>	<u>\$ 442,245</u>	<u>\$ 911,086</u>	<u>\$ 1,357,065</u>

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See accompanying notes to financial statements

TERRA COMMUNITY COLLEGE  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 4,995,082	\$ 4,529,149
Grants and contracts	1,465,146	1,199,481
Other income	432,868	379,549
Auxiliary enterprise receipts	1,268,244	1,184,029
Payments to suppliers	(4,532,548)	(4,179,545)
Payroll and fringe benefits	(11,102,244)	(10,524,423)
Scholarships and fellowships	(200,367)	(129,321)
Net cash from operating activities	<u>(7,673,819)</u>	<u>(7,541,081)</u>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	6,302,255	6,058,287
Grants and contracts other than capital	<u>2,290,631</u>	<u>1,844,449</u>
Net cash from noncapital financing activities	<u>8,592,886</u>	<u>7,902,736</u>
<b>Cash flows from capital financing activities</b>		
Purchases of capital assets	(369,903)	(238,564)
Insurance recovery	--	57,889
State appropriations capital	302,834	59,041
Repayment of capital lease	(197,876)	(199,727)
Interest on capital lease	(7,022)	(15,380)
Net cash from financing activities	<u>(271,967)</u>	<u>(336,741)</u>
<b>Cash flows from investing activities</b>		
Change in short-term investments	(783,895)	(94,352)
Purchase of investments	(1,328,823)	(728,377)
Proceeds from sale and maturities of investments	1,186,173	689,917
Interest on investments	216,917	267,498
Net cash from investing activities	<u>(709,628)</u>	<u>134,686</u>
<b>Net change in cash</b>	(62,528)	159,600
<b>Cash and cash equivalents, beginning of year</b>	<u>3,233,354</u>	<u>3,073,754</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 3,170,826</u>	<u>\$ 3,233,354</u>
<b>Reconciliation of net operating (loss) to net cash from operating activities</b>		
Operating loss	\$ (8,764,828)	\$ (8,431,210)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation expense	894,904	978,789
Changes in assets and liabilities		
Receivables	217,230	(115,696)
Inventories	(18,113)	60,809
Other assets	(173,096)	24,145
Accounts payable	(6,647)	(139,933)
Accrued salaries and benefits	5,886	(26,571)
Deposits held	(15,379)	(4,616)
Deferred revenue	186,224	113,202
Net cash from operating activities	<u>\$ (7,673,819)</u>	<u>\$ (7,541,081)</u>

See accompanying notes to financial statements

TERRA COLLEGE FOUNDATION  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Cash flows from operating activities</b>		
Contributions	\$ (42)	\$ 191,227
Investment return	14,464	52,055
Scholarship and loan expenditures	(86,496)	(89,156)
Purchase of equipment for Terra Community College	--	(47,742)
Payments to suppliers	<u>(178,256)</u>	<u>(132,389)</u>
Net cash from operating activities	<u>(250,330)</u>	<u>(26,005)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sale of long-term investments	48,742	1,396,805
Purchase of long-term investments	<u>(489,992)</u>	<u>(1,436,268)</u>
Net cash from investing activities	<u>(441,250)</u>	<u>(39,463)</u>
<b>Cash flows from financing activities</b>		
Proceeds from contributions restricted for long-term purposes	<u>732,478</u>	<u>46,432</u>
Net cash from financing activities	<u>732,478</u>	<u>46,432</u>
<b>Net change in cash</b>	40,898	(19,036)
<b>Cash and cash equivalents, beginning of period</b>	<u>327,621</u>	<u>346,657</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 368,519</u>	<u>\$ 327,621</u>
 <b>Reconciliation of net operating revenues (expenses) to net cash from operating activities</b>		
Change in net assets	\$ 910,790	\$ 64,069
Adjustments to reconcile change in net assets to net cash from operating activities		
Unrealized loss and realized gain on investments	89,954	(79,370)
Change in contributions receivable	(475,056)	12,006
Contributions restricted for long-term purposes	(732,478)	(46,432)
Change in assets and liabilities		
Accounts receivable	(18,979)	(1,217)
Accounts payable	<u>(24,561)</u>	<u>24,939</u>
Net cash from operating activities	<u>\$ (250,330)</u>	<u>\$ (26,005)</u>

See accompanying notes to financial statements

TERRA COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS  
Years ended June 30, 2008 and 2007

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**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 College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

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.

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(Continued)

TERRA COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS  
Years ended June 30, 2008 and 2007

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**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, 2008 and 2007, 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.

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(Continued)

TERRA COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS  
Years ended June 30, 2008 and 2007

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**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) certain federal and most 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.

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(Continued)



TERRA COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS  
Years ended June 30, 2008 and 2007

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**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.

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, 2007, to conform to classifications used for the year ended June 30, 2008.

**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 statement of net assets. However, for GASB Statement No. 3 discussion purposes (see below), the funds in the State Treasurer's investment pool are classified as investments.

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(Continued)

TERRA COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS  
Years ended June 30, 2008 and 2007

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**NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)**

Deposits: At June 30, 2008, the carrying amount of the College's deposits in all funds was \$3,169,056 (which consists of cash, excluding cash on hand of \$1,770) and the bank balance was \$3,349,804. The difference between carrying amount and bank balance was primarily due to outstanding checks at June 30, 2008. 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 \$3,249,804 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 \$3,931,388 and \$2,985,036 (amortized cost basis of \$3,911,581 and \$2,968,747) at June 30, 2008 and 2007. The College's investments include the following:

	<u>2008</u>	<u>2007</u>
Money market	\$ 141,741	\$ 228,365
Certificates of deposit	323,385	314,233
U.S. agency obligations	<u>1,233,626</u>	<u>1,071,170</u>
	<u>\$ 1,698,752</u>	<u>\$ 1,613,768</u>

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 \$2,232,636 and \$1,371,268 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, 2008 and 2007. STAR Ohio has a AAAM 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 0.05 years to 1.55 years at June 30, 2008 and 0.21 years to 2.01 years at June 30, 2007.

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(Continued)

TERRA COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS  
Years ended June 30, 2008 and 2007

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**NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)**

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 - CHANGES IN ACCOUNTING PRINCIPLES**

For the year ended June 30, 2008, the College implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions". This principle establishes accounting and disclosure requirements for employers who provide employees post-employment benefits other than pensions. The implementation of this principle had no effect on previously reported net asset balances.

The College also implemented GASB Statement No. 50, "Pension Disclosures - An Amendment of GASB Statements No. 25 and 27." This principle more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to the financial statements. The implementation of this principle had no effect on previously reported net asset balances.

**NOTE 4 - ACCOUNTS RECEIVABLE**

Receivables at June 30, 2008 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.

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(Continued)

TERRA COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS  
Years ended June 30, 2008 and 2007

**NOTE 5 - CAPITAL ASSETS**

Capital assets at June 30, 2008 and 2007 are summarized as follows:

<u>Description</u>	July 1, 2007	<u>Additions</u>	<u>Deletions</u>	June 30, 2008
Land	\$ 302,404	\$ --	\$ --	\$ 302,404
Improvements	2,572,245	--	--	2,572,245
Buildings	24,398,918	107,820	--	24,506,738
Equipment, furniture and books	7,236,732	28,669	--	7,265,401
Construction in progress	<u>--</u>	<u>33,201</u>	<u>--</u>	<u>33,201</u>
Total	34,510,299	<u>\$ 169,690</u>	<u>\$ --</u>	34,679,989
Accumulated depreciation	<u>(17,511,741)</u>	<u>\$ (894,904)</u>	<u>\$ --</u>	<u>(18,406,645)</u>
Capital assets, net	<u>\$ 16,998,558</u>			<u>\$ 16,273,344</u>
	July 1, 2006	<u>Additions</u>	<u>Deletions</u>	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	<u>77,021</u>	<u>--</u>	<u>(77,021)</u>	<u>--</u>
Total	34,378,810	<u>\$ 358,934</u>	<u>\$ (227,445)</u>	34,510,299
Accumulated depreciation	<u>(16,634,446)</u>	<u>\$ (978,789)</u>	<u>\$ 101,494</u>	<u>(17,511,741)</u>
Capital assets, net	<u>\$ 17,744,364</u>			<u>\$ 16,998,558</u>

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. Repairs to the roof totaling \$107,820 were capitalized in fiscal year 2008.

**NOTE 6 - 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.

(Continued)

TERRA COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS  
Years ended June 30, 2008 and 2007

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**NOTE 6 - STATE SUPPORT (Continued)**

Such facilities are reflected as building or construction in progress in the accompanying statement of net assets. 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 2008 and 2007 the College received capital project appropriations of \$302,834 and \$59,041 for building renovations and equipment.

**NOTE 7 - 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.

**NOTE 8 - 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

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(Continued)

TERRA COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS  
Years ended June 30, 2008 and 2007

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**NOTE 8 - DEFINED BENEFIT PENSION PLANS (Continued)**

contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007, and 2006 were \$578,859, \$526,956, and \$531,884 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, 2008, 2007, and 2006 were \$543,705, \$529,703, and \$540,109 respectively.

**NOTE 9 - 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, 2007 (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 \$38,836 and \$37,850 during fiscal years 2008 and 2007, respectively. The balance in the Health Care Reserve Fund was \$4.1 billion on June 30, 2007 (the latest information available). For the year ended June 30, 2007 (the latest information available), net health care costs paid by STRS were \$503 million and STRS had approximately 123,000 eligible benefit recipients.

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(Continued)

TERRA COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS  
Years ended June 30, 2008 and 2007

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**NOTE 9 - POSTEMPLOYMENT BENEFITS (Continued)**

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, 2007 (the latest information available) the allocation rate was 3.32%. 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 2008, 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, 2007 were \$127,615,614. The target level for the health care fund is 150% of the projected claims less premium contributions for the next year. As of June 30, 2007, the value of the health care fund was \$386.4 million, which is about 224% 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 55,818. The portion of the employer contributions that were used to fund post employment benefits was \$19,218 and \$18,022 for 2008 and 2007.

**NOTE 10 - OPERATING EXPENSES BY NATURAL CLASSIFICATION**

The College's operating expenses by natural classification were as follows for the years ended June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Salaries and wages	\$ 8,155,077	\$ 7,791,301
Employee benefits	2,953,053	2,706,550
Utilities	529,552	548,548
Supplies and other services	3,789,761	3,571,403
Depreciation	894,904	978,789
Student scholarships and financial aid	<u>200,367</u>	<u>129,321</u>
	<u>\$ 16,522,714</u>	<u>\$ 15,725,912</u>

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(Continued)

TERRA COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS  
Years ended June 30, 2008 and 2007

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**NOTE 11 - 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 Ohio Casualty Group 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 Ohio Casualty Group. 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. The college pays 80% of health premiums and 88% of single dental premiums for union staff employees hired on or after January 1, 2008.

**NOTE 12 - NONCURRENT LIABILITIES**

Noncurrent liabilities at June 30, 2008 and 2007 are summarized as follows:

	<u>July 1, 2007</u>	<u>Current Additions</u>	<u>Reductions</u>	<u>June 30, 2008</u>	<u>Non Current Portion</u>	<u>Current Portion</u>
Lease obligations						
Capital lease obligations	\$ 264,285	\$ _____	\$ (197,876)	\$ 66,409	\$ --	\$ 66,409
Total lease obligations	<u>264,285</u>	<u>_____</u>	<u>(197,876)</u>	<u>66,409</u>	<u>--</u>	<u>66,409</u>
Other liabilities						
Compensated absences	<u>675,830</u>	<u>316,964</u>	<u>(311,078)</u>	<u>681,716</u>	<u>359,491</u>	<u>322,225</u>
Total other liabilities	<u>675,830</u>	<u>316,964</u>	<u>(311,078)</u>	<u>681,716</u>	<u>359,491</u>	<u>322,225</u>
<b>Total noncurrent obligations</b>	<u>\$ 940,115</u>	<u>\$ 316,964</u>	<u>\$(508,954)</u>	<u>\$ 748,125</u>	<u>\$ 359,491</u>	<u>\$388,634</u>

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(Continued)



TERRA COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS  
Years ended June 30, 2008 and 2007

**NOTE 12 - NONCURRENT LIABILITIES (Continued)**

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

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, 2008:

<u>Year</u> 2009	\$ 67,057
Total minimum lease payment	<u>67,057</u>
Less: amount representing interest	<u>(648)</u>
Present value of future minimum lease payments	<u>\$ 66,409</u>

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 2008 and 2007 was \$596,634 and \$457,687.

**NOTE 13 - CONTINGENCIES**

At June 30, 2008, 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

(Continued)

TERRA COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS  
Years ended June 30, 2008 and 2007

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**NOTE 13 - CONTINGENCIES (Continued)**

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 14 - 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.

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:

	<u>2008</u>	<u>2007</u>
Money market funds	\$ 513,968	\$ 64,673
Debt securities	137,869	130,133
Equity securities	<u>609,125</u>	<u>714,860</u>
	<u>\$ 1,260,962</u>	<u>\$ 909,666</u>

During the years ended June 30, 2008 and 2007, the Foundation made contributions of \$90,171 and \$137,368, 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.

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(Continued)

**SUPPLEMENTAL INFORMATION**

TERRA COMMUNITY COLLEGE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2008

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Pass through Entity Number</u>	<u>Federal CFDA 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	\$ 1,989,698	\$ 1,989,698
Pell Grant - Adm. Allowance	Direct	84.063	<u>4,495</u>	<u>4,495</u>
Total Pell Grant			1,994,193	1,994,193
Federal Supplemental Educational				
Opportunity Grant	Direct	84.007	106,300	106,300
Federal Work Study	Direct	84.033	112,746	112,746
Federal Family Education Loans (Note 2)	Direct	84.032	3,015,096	3,015,096
Academic Competitiveness Grant	Direct	84.375	<u>34,100</u>	<u>34,100</u>
Total Student Financial Aid Cluster			5,262,435	5,262,435
Pass-through Ohio Department of Education				
Perkins Grant	VEC PII-P2008-509	84.048	32,182	32,182
Tech Prep	VETP-2008-18	84.243	<u>170,033</u>	<u>170,033</u>
Total Ohio Department of Education			202,215	202,215
Pass-through Ohio Bureau of Vocational Rehabilitation				
Rehabilitation Services Basic Support	DLM 98094	84.126	<u>24,336</u>	<u>24,336</u>
Total U.S. Department of Education			5,488,986	5,488,986
<u>U.S. Department of Labor</u>				
Pass-through Ohio Department of Job & Family Services				
Workforce Investment Act (WIA) Cluster	48621	17.258	516,625	516,625
	48621	17.259	38,767	38,767
	48621	17.260	<u>215,233</u>	<u>215,233</u>
Total WIA Cluster			770,625	770,625
Pass-through Ohio Department of Employment Services				
Training Readjustment Act	6170	17.245	<u>50,593</u>	<u>50,593</u>
Total U.S. Department of Labor			821,218	821,218

(Continued)

TERRA COMMUNITY COLLEGE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2008

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<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Pass through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Receipts Recognized</u>	<u>Program Expenditures</u>
<u>U.S. Department of Health &amp; Human Services</u>				
Administration for Children & Families	502227	93.575	\$ 5,269	\$ 5,269
Pass-through Ohio Board of Regents OARnet/Ohio Supercomputer Ctr.	G994235	93.211	<u>12,000</u>	<u>12,000</u>
Total U.S. Department of Health & Human Services			17,269	17,269
<u>U.S. Department of Veteran's Affairs</u>				
Veteran's Rehabilitation	14923435	64.116	17,216	17,216
<u>U.S. Nuclear Regulatory Commission</u>				
Pass-through The Ohio State University Development of Reactor Safety	NRC-38-07-488	77.006	6,001	6,001
<u>Small Business Administration</u>				
Pass-through Ohio Dept. of Development Small Business Administration Center	56080	59.037	<u>79,389</u>	<u>79,389</u>
Total Federal Expenditures			<u>\$ 6,430,079</u>	<u>\$ 6,430,079</u>

The notes to the schedule of federal awards expenditures are an integral part of this statement.

TERRA COMMUNITY COLLEGE  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2008

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**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 participates in the Federal Family Education Loan Program. The dollar amounts listed in the Schedule of Federal Awards Expenditures represents new loans awarded during the fiscal year ended June 30, 2008.

**BALESTRA, HARR & SCHERER, CPAs, INC.**  
528 South West Street, P.O. Box 687  
Piketon, Ohio 45661

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Ohio Society of Certified Public Accountants

**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  
2830 Napoleon Road  
Fremont, Ohio 43420

We have audited the financial statements of the business-type activities and the discretely presented component unit of the Terra Community College (the College), which is a component unit of the state of Ohio, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 9, 2008, wherein we noted the College implemented GASB Statements No. 45 and 50. 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 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 College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 College'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 College's financial statements that is more than inconsequential will not be prevented or detected by the College'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 College'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 weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We identified a certain other deficiency in internal controls over financial reporting which we have reported to management in a separate letter dated October 9, 2008.

Board of Trustees

Terra Community College

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*

Page 2

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the College's basic 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 management, the audit committee, members of the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

October 9, 2008



# BALESTRA, HARR & SCHERER, CPAs, INC.

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Piketon, Ohio 45661

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## **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  
2830 Napoleon Road  
Fremont, Ohio 43420

### **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 its major federal program for the year ended June 30, 2008. The College's major federal program is 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 its major federal program 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 of the 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 its major federal program for the year ended June 30, 2008.

In a separate letter to the College's management dated October 9, 2009, we reported other matters related to federal noncompliance not requiring inclusion in this report.

### **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, 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 College's internal control over compliance.

Board of Trustees

Terra Community College

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

Page 2

### **Internal Control Over Compliance (Continued)**

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.

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 College's internal control.

Our consideration of the internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

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



Balestra, Harr & Scherer, CPAs, Inc.

October 9, 2008

**TERRA COMMUNITY COLLEGE**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*  
*OMB CIRCULAR A-133 SECTION .505*  
*FOR THE FISCAL YEAR ENDED JUNE 30, 2008*

**1. SUMMARY OF AUDITOR'S RESULTS**

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant internal control deficiencies reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant internal control deficiencies reported for major federal programs?	No
(d)(1)(v)	Type of Major Program's Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	Student Financial Aid Cluster: Federal Supplemental Educational Opportunity Grants, CFDA# 84.007; Federal Work- Study Program, CFDA# 84.033; Federal Pell Grant Program, CFDA# 84.063, Academic Competitiveness Grant, #84.375; Federal Family Education Loans CFDA# 84.032
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**TERRA COMMUNITY COLLEGE**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*  
*OMB CIRCULAR A-133 SECTION .505*  
*FOR THE FISCAL YEAR ENDED JUNE 30, 2008*  
 (CONTINUED)

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**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Finding Number	None
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**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

Finding Number	None
CFDA Title and Number	
Federal Award Number/Year	
Federal Agency	
Pass-Through Agency	

**TERRA COMMUNITY COLLEGE**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**OMB CIRCULAR A-133 SECTION .315(b)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
07-01	Noncompliance with 34 CFR 668.22(f)(2)(i).	Yes	
07-02	Noncompliance with 34 CFR 668.57(a).	Yes	
07-03	Noncompliance with ACG requirements.	Yes	
07-04	Noncompliance with Satisfactory Academic Progress requirements.	Yes	





**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 16, 2008**