

TERRA COMMUNITY COLLEGE
ANNUAL REPORT
Years ended June 30, 2004 and 2003



**Auditor of State
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of the Terra State Community College, Sandusky County, prepared by Crowe Chizek and Company LLC, for the audit period July 1, 2003 to June 30, 2004. 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 State Community College is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

January 4, 2005

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TERRA COMMUNITY COLLEGE
Sandusky County

ANNUAL REPORT
June 30, 2004 and 2003

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TERRA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004 and 2003

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, 2004 with selected comparative information for the year ended June 30, 2003. Responsibility for the completeness and fairness of this information rests with the College and should be read in conjunction with the accompanying financial statements and notes.

Using the Annual Report

The following activities are included in the financial statements:

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

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

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

Financial Highlights

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

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

TERRA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004 and 2003

Condensed Financial Information

Statement of Net Assets
(in thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets			
Current assets	\$ 7,092	\$ 6,298	\$ 5,331
Capital assets, net	19,240	18,502	19,083
Other noncurrent assets	114	27	35
Total assets	<u>26,446</u>	<u>24,827</u>	<u>24,449</u>
Liabilities			
Current liabilities	1,947	1,275	1,394
Noncurrent liabilities	1,081	406	395
Total liabilities	<u>3,028</u>	<u>1,681</u>	<u>1,789</u>
Net assets			
Invested in capital assets, net of related debt	18,401	18,466	19,040
Restricted			
Nonexpendable	-	-	-
Expendable	556	1,069	789
Unrestricted	4,461	3,611	2,831
Total net assets	<u>\$ 23,418</u>	<u>\$ 23,146</u>	<u>\$ 22,660</u>

Assets: As of June 30, 2004, the College's total assets amount to approximately \$26.4 million. Investment in capital assets, net of depreciation, represented the College's largest asset, totaling \$19.2 million or 73 percent of total assets. Cash and cash equivalents and investments, totaling \$5.3 million or 20 percent of total assets, were the College's next largest asset. Cash and investments increased by approximately \$1.0 million, primarily a result of a 6.0% increase in tuition that became effective in Summer 2003.

Liabilities: At June 30, 2004, the College's liabilities totaled approximately \$3.0 million. Accounts payable and accrued liabilities represented \$1.2 million or 40 percent, of total liabilities. Total liabilities increased during the year ended June 30, 2004 primarily due to the addition of two capital leases for a new administrative software system.

Net Assets: Net assets at June 30, 2004, totaled approximately \$23.4 million or 89 percent of total assets. Net assets invested in capital assets totaled \$18.4 million or 79 percent, of total net assets. Restricted and unrestricted net assets represented 2 percent and 19 percent of total net assets, respectively. Total net assets increased by \$272 thousand during the year ended June 30, 2004 and \$486 thousand for the year ended June 30, 2003.

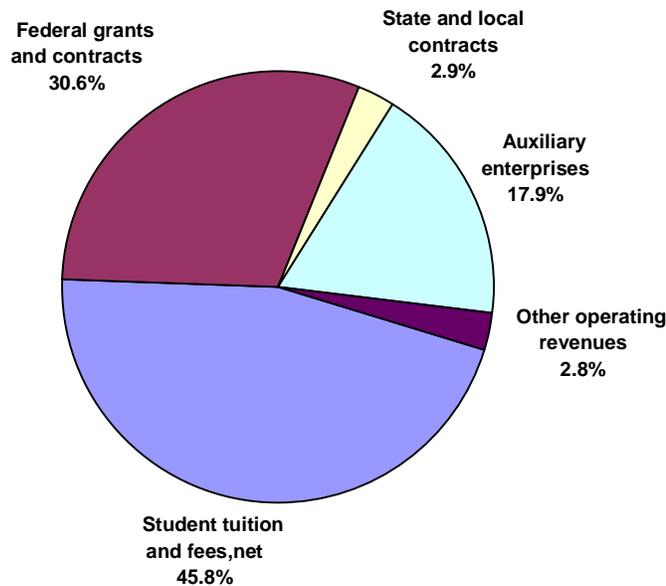
TERRA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2003 and 2002

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating revenue			
Tuition and fees	\$ 4,159	\$ 3,995	\$ 3,663
Government grants	3,047	3,160	2,418
Auxiliary services	1,627	1,404	1,265
Other operating revenue	259	271	175
Total operating revenue	<u>9,092</u>	<u>8,830</u>	<u>7,521</u>
Operating expenses			
Educational and general	14,013	13,015	12,963
Auxiliary expenses	1,041	935	946
Depreciation	990	1,135	1,112
Total operating revenue	<u>16,044</u>	<u>15,085</u>	<u>15,021</u>
Net loss from operations	(6,952)	(6,255)	(7,500)
Nonoperating revenue (expenses)			
State appropriations	6,611	6,500	6,811
Gifts and grants	113	42	160
Investment income	49	58	66
Other nonoperating	(26)	(4)	(4)
Total nonoperating revenue	<u>6,747</u>	<u>6,596</u>	<u>7,033</u>
Capital appropriations	<u>477</u>	<u>144</u>	<u>305</u>
Increase in net assets during year	<u>\$ 272</u>	<u>\$ 486</u>	<u>\$ (161)</u>

TERRA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004 and 2003

OPERATING REVENUES



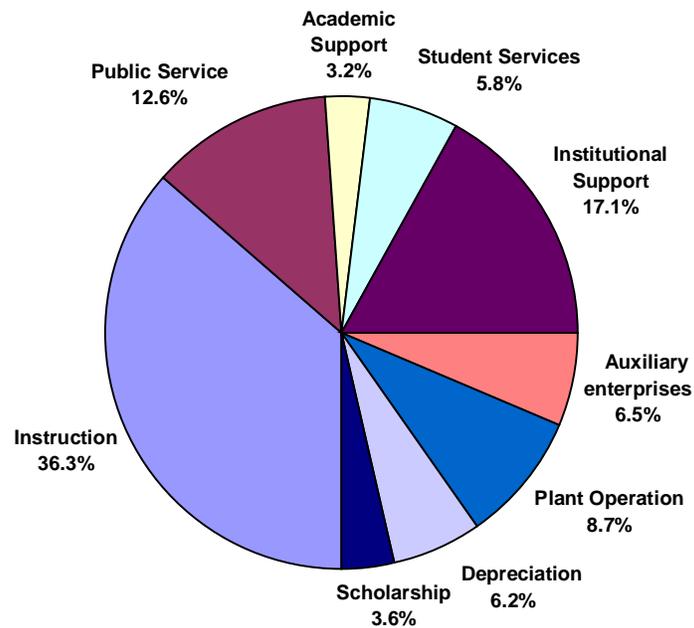
Total operating revenues were approximately \$9.1 million the year ended June 30, 2004. The most significant sources of operating revenue for the College are net student tuition and fees (45.8 percent), federal grants and contracts (30.6 percent) and auxiliary enterprise revenues (17.9 percent).

Tuition and fees continued to be the largest source of operating revenues for the College. Tuition revenue increased approximately 4% primarily from the increase in tuition rates. Auxiliary enterprises revenue increased 16% as the College bookstore improved their profit margin. In 2003 the College added several state grants that increase grant revenue in comparison to 2002.

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, 2004, amounted to \$6.6 million. This represents an increase of \$111 thousand over the College's appropriation for the prior year or 1.7%. In 2003, the appropriation decreased \$311 thousand or just under 5% in comparison to 2002.

TERRA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004 and 2003

OPERATING EXPENSES



Operating expenses, including \$990 thousand of depreciation, totaled approximately \$16.0 million. The majority of the College's operating funds are expended directly for the primary mission of the College - instruction (36.3 percent), institutional support (17.1 percent) and public service (12.6 percent). This combined 66.0 percent compares with 66.8 percent in 2003 over 2002.

Total operating expenses increased 6.4% with instruction expenses increasing \$524 thousand after less than a 1% increase in 2003.

For the year ended June 30, 2004, student financial aid related to tuition and fees totaled \$2.5 million, including scholarship allowance of \$1.9 million and student aid expense of \$577 thousand. This represents a 31.6 percent increase over the prior year. In 2003 the increase over 2002 was 27 percent.

TERRA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004 and 2003

Statement of Cash Flows
(in thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net cash provided (used) by:			
Operating activities	\$ (5,271)	\$ (5,509)	\$ (6,013)
Noncapital financing activities	6,724	6,541	7,202
Capital financing activities	(473)	(419)	(163)
Investing activities	<u>31</u>	<u>33</u>	<u>279</u>
 Net increase in cash	1,011	646	1,305
 Cash-beginning of year	<u>2,506</u>	<u>1,860</u>	<u>555</u>
 Cash-end of year	<u>\$ 3,517</u>	<u>\$ 2,506</u>	<u>\$ 1,860</u>

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

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

Major sources of funds included in operating activities are student tuition and fees (\$4.1 million) and grants and contracts (\$3.4 million). The largest cash payments for operating activities were to employees, for wages and benefits, (\$9.8 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 \$19.2 million at June 30, 2004, a net increase of \$739 thousand over the prior year-end. This contrasts with a decrease of \$581 thousand in 2003 over 2002. Additions to capital assets during the year totaled \$1.7 million. The majority of the increase was the result of the purchase of a new administrative computer software package.

TERRA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004 and 2003

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 FY05 is projected at \$5.9 million which is 3.3% below the funding received in FY04. Current projections for FY06 indicate the possibility of further reductions to the College's state funding.

In FY04, the College was able to offset most of the losses in state funding through tight fiscal management and by exercising extensive cost cutting measures across the board. In anticipation of the potential of additional funding losses from the State, the Board of Trustees approved a net tuition increase of 3.4% effective Fall 2004 in March of 2004. Known expense increases in FY05 are a \$1,000 across the board salary increase for faculty, a 1.5% plus \$200 increase for staff, and a 9.5% medical insurance increase.

Campus-wide concentrated efforts have been made in the last year to increase enrollment. These efforts have been significant as enrollment in Fall 2004 has increased by 6.8% since Fall 2002. Total FY04 full time equivalent students increased by 3.6% from the prior year.

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



REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENTS

Board of Trustees
Terra Community College
Sandusky County
Fremont, Ohio

We have audited the accompanying statements of net assets of Terra Community College (the College), a component unit of the State of Ohio, as of June 30, 2004 and 2003 and the statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Terra College Foundation, an entity included as a component unit as required by Statement No. 39 of the Governmental Accounting Standards Board, as of December 31, 2003 and for the year then ended. The December 31, 2003 financial statements of Terra College Foundation were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to those amounts included for the Foundation, is based solely on the report of the other auditors.

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

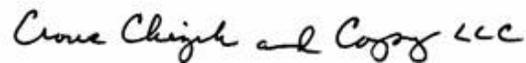
As discussed in Note 1, the College adopted the provisions of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College, as of June 30, 2004 and 2003, and the results of its operations 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 August 17, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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



Crowe Chizek and Company LLC

Columbus, Ohio
August 17, 2004

TERRA COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
June 30, 2004 and 2003

Assets	2004	2003
Current assets		
Cash and cash equivalents	\$ 3,516,902	\$ 2,506,034
Short-term investments	1,770,267	1,752,561
Intergovernmental receivable	236,913	274,947
Due from State of Ohio	25,569	37,347
Loans receivable, net	--	5,471
Other receivables	1,244,052	1,403,113
Inventory	232,520	238,274
Other current assets	<u>65,285</u>	<u>80,713</u>
Total current assets	<u>7,091,508</u>	<u>6,298,460</u>
Noncurrent assets		
Cash in escrow	95,717	
Long-term other receivables	18,650	27,161
Capital assets, gross	34,021,703	37,642,756
Accumulated depreciation	<u>(14,781,350)</u>	<u>(19,141,249)</u>
Capital assets, net	<u>19,240,353</u>	<u>18,501,507</u>
Total noncurrent assets	<u>19,354,720</u>	<u>18,528,668</u>
Total assets	<u>26,446,229</u>	<u>24,827,128</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,214,386	762,752
Deferred revenue	269,543	244,954
Capital lease obligation, current	215,106	8,010
Compensated absences, current	<u>248,546</u>	<u>259,063</u>
Total current liabilities	<u>1,947,581</u>	<u>1,274,779</u>
Noncurrent liabilities		
Capital lease obligation, noncurrent	624,632	27,161
Compensated absences, noncurrent	<u>455,938</u>	<u>379,436</u>
Total noncurrent liabilities	<u>1,080,570</u>	<u>406,597</u>
Total liabilities	<u>3,028,151</u>	<u>1,681,376</u>
Net assets		
Invested in capital assets, net of related debt	18,400,616	18,466,336
Nonexpendable	--	--
Expendable		
Other	51,848	65,144
Capital projects	504,732	1,003,715
Unrestricted	<u>4,460,882</u>	<u>3,610,557</u>
Total net assets	<u>\$ 23,418,078</u>	<u>\$ 23,145,752</u>

See accompanying notes to financial statements

TERRA COLLEGE FOUNDATION
STATEMENTS OF NET ASSETS
June 30, 2004 and December 31, 2003

Assets	June 30, <u>2004</u>	December 31, <u>2003</u>
Cash and cash equivalents	\$ 233,412	\$ 268,583
Contributions receivable	125,112	144,144
Investments	<u>679,603</u>	<u>677,382</u>
Total assets	<u>1,038,127</u>	<u>1,090,109</u>
Net assets		
Unrestricted	2,890	9,304
Temporarily restricted	192,707	239,611
Permenantly restricted	<u>842,530</u>	<u>841,194</u>
Total net assets	<u>\$ 1,038,127</u>	<u>\$ 1,090,109</u>

See accompanying notes to financial statements

TERRA COMMUNITY COLLEGE
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
Years ended June 30, 2004 and 2003

Revenues	<u>2004</u>	<u>2003</u>
Operating revenues		
Student tuition and fees (net of scholarship allowances of \$1,890,352 in 2004 and \$1,709,831 in 2003)	\$ 4,158,772	\$ 3,995,106
Federal grants and contracts	2,786,274	2,696,581
State grants and contracts	201,682	371,585
Private grants and contracts	59,247	91,558
Sales and services	195,612	163,073
Auxiliary enterprises	1,430,995	1,241,077
Other operating revenues	<u>258,920</u>	<u>271,269</u>
Total operating revenues	<u>9,091,502</u>	<u>8,830,249</u>
Expenses		
Operating expenses		
Educational and general		
Instructional	5,827,596	5,304,254
Public service	2,015,923	2,175,386
Academic support	511,415	498,235
Student services	938,340	1,068,279
Institutional support	2,745,425	2,599,820
Operation and maintenance of plant	1,396,939	1,219,082
Depreciation expense	990,077	1,134,933
Student financial aid	577,223	150,056
Auxiliary enterprises	<u>1,040,620</u>	<u>935,248</u>
Total operating expenses	<u>16,043,558</u>	<u>15,085,293</u>
Operating loss	<u>(6,952,056)</u>	<u>(6,255,044)</u>
Nonoperating revenues (expenses)		
State appropriations	6,611,382	6,500,391
Gifts	112,951	41,303
Investment income	48,930	57,519
Interest on indebtedness	<u>(25,616)</u>	<u>(2,669)</u>
Net nonoperating revenues	<u>6,747,647</u>	<u>6,596,544</u>
Income (loss) before capital appropriations	(204,409)	341,500
Capital appropriations	<u>476,735</u>	<u>144,434</u>
Increase in net assets	272,326	485,934
Net assets		
Net assets- beginning of year	<u>23,145,752</u>	<u>22,659,818</u>
Net assets- end of year	<u>\$ 23,418,078</u>	<u>\$ 23,145,752</u>

See accompanying notes to financial statements

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

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

See accompanying notes to financial statements

TERRA COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
Year ended December 31, 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support				
Contributions	\$ 7,111	\$ 397,127	\$ 33,147	\$ 437,385
Contributed services and supplies	76,575		--	76,575
Investment return	7,418	34,913	--	42,331
Net assets released from restrictions	402,865	(402,865)	--	--
Change in donor designations	<u> </u>	<u>53,147</u>	<u>(53,147)</u>	<u> </u>
Total revenues, gains and other support	493,969	82,322	(20,000)	556,291
Expenses				
Program services				
Scholarships and loans	130,716	--	--	130,716
Instructional equipment	132,186	--	--	132,186
Supplies	1,062	--	--	1,062
Other	8,682	--	--	8,682
Supporting services				
Management and general	110,133	--	--	110,133
Fund raising	<u>142,466</u>	<u> </u>	<u> </u>	<u>142,466</u>
Total expenses	<u>525,245</u>	<u> </u>	<u> </u>	<u>525,245</u>
Change in net assets	(31,276)	82,322	(20,000)	31,046
Net assets				
Net assets- beginning of year	<u>40,580</u>	<u>157,289</u>	<u>861,194</u>	<u>1,059,063</u>
Net assets- end of year	<u>\$ 9,304</u>	<u>\$ 239,611</u>	<u>\$ 841,194</u>	<u>\$ 1,090,109</u>

See accompanying notes to financial statements

TERRA COMMUNITY COLLEGE
STATEMENT S OF CASH FLOWS
Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Tuition and fees	\$ 4,083,570	\$ 3,976,092
Grants and contracts	3,354,925	2,929,396
Other income	454,533	431,769
Auxiliary enterprise receipts	1,430,995	1,241,077
Payments to suppliers	(4,185,810)	(4,225,076)
Payroll and fringe benefits	(9,832,442)	(9,712,583)
Scholarships and fellowships	<u>(577,223)</u>	<u>(150,056)</u>
Net cash from operating activities	<u>(5,271,452)</u>	<u>(5,509,381)</u>
Cash flows from noncapital financing activities		
State appropriations	6,611,382	6,500,391
Grants and contracts other than capital	<u>112,951</u>	<u>41,303</u>
Net cash from noncapital financing activities	<u>6,724,333</u>	<u>6,541,694</u>
Cash flows from capital financing activities		
Purchases of capital assets	(801,923)	(409,098)
State appropriations capital	476,735	--
Repayment of capital lease	(122,433)	(7,539)
Interest on capital lease	<u>(25,616)</u>	<u>(2,669)</u>
Net cash from financing activities	<u>(473,237)</u>	<u>(419,306)</u>
Cash flows from investing activities		
Change in short-term investments	(17,706)	(24,933)
Interest on investments	<u>48,930</u>	<u>57,519</u>
Net cash from investing activities	<u>31,224</u>	<u>32,586</u>
Net increase in cash	1,010,868	645,593
Cash and cash equivalents, beginning of year	<u>2,506,034</u>	<u>1,860,441</u>
Cash and cash equivalents, end of year	<u>\$ 3,516,902</u>	<u>\$ 2,506,034</u>
Reconciliation of net operating revenues (expenses) to net cash from operating activities		
Operating income (loss)	(6,952,056)	\$ (6,255,044)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation expense	990,077	1,134,933
Changes in assets and liabilities		
Receivables	222,854	(277,246)
Inventories	5,754	19,345
Other assets	15,428	(31,199)
Accounts payable	451,634	(109,704)
Accrued salaries and benefits	65,985	13,517
Deposits held	(95,717)	(3,667)
Deferred revenue	<u>24,589</u>	<u>(316)</u>
Net cash from operating activities	<u>\$ (5,271,452)</u>	<u>\$ (5,509,381)</u>

See accompanying notes to financial statements

TERRA COLLEGE FOUNDATION
STATEMENT S OF CASH FLOWS
Periods ended June 30, 2004 December 31, 2003

	June 30, 2004	December 31, 2003
	(six months)	(twelve months)
Cash flows from operating activities		
Contributions	\$ 173,769	\$ 2,817
Investment return	8,129	4,582
Scholarship and loan expenditures	(73,436)	(130,716)
Purchase of equipment for Terra Community College	(49,490)	(132,186)
Payments to suppliers	(98,772)	(185,768)
Net cash from operating activities	<u>(39,800)</u>	<u>(441,271)</u>
Cash flows from investing activities		
Proceeds from sale of long-term investments	111,161	318,805
Purchase of long-term investments	(119,449)	(417,479)
Net cash from investing activities	<u>(8,288)</u>	<u>(98,674)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for long-term purposes	1,336	430,274
Investment return restricted for long-term purposes	11,581	42,331
Net cash from financing activities	<u>12,917</u>	<u>472,605</u>
Net change in cash	(35,171)	(67,340)
Cash and cash equivalents, beginning of period	<u>268,583</u>	<u>335,923</u>
Cash and cash equivalents, end of period	<u>\$ 233,412</u>	<u>\$ 268,583</u>
 Reconciliation of net operating revenues (expenses) to net cash from operating activities		
Change in net assets	\$ (51,982)	\$ 31,046
Adjustments to reconcile change in net assets to net cash from operating activities		
Contributed services		
Unrealized loss on investments	6,067	4,582
Increase in contributions receivable	19,032	(4,294)
Contributions restricted for long-term purposes	(1,336)	(430,274)
Investment return restricted for long-term purposes	(11,581)	(42,331)
Net cash from operating activities	<u>\$ (39,800)</u>	<u>\$ (441,271)</u>

See accompanying notes to financial statements

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Foundation's fiscal year was different than the College's fiscal year of June 30. Effective for the six month period ended June 30, 2004 the Foundation changed its year end to June 30 to be consistent with the College. Therefore the Foundation's financial statements present activity for the 12 months ended December 31, 2003 and the 6 months ended June 30, 2004.

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

The financial statements of the Terra College Foundation are included in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units - an amendment of GASB Statement No. 14*. This Statement amended Statement No. 14 to provide additional guidance to determine whether certain organizations, such as not-for-profit foundations, for which the primary institution is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the primary entity. Generally, this statement requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of an institution. The provisions of this Statement became effective for financial statements for periods beginning after June 15, 2003.

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

(Continued)

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2004 and 2003

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, 2004 and 2003, 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 in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses, and changes in net assets.

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

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

(Continued)

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2004 and 2003

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 7 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 with accounts payable and accrued liabilities in the statements of net assets, and as a component of compensation and benefit expense in the statements of revenues, expenses, and changes in net assets.

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

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

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

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

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

(Continued)

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2004 and 2003

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.

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, 2003, to conform to classifications used for the year ended June 30, 2004.

NOTE 2 - DEPOSITS AND INVESTMENTS

The investment and deposit of College monies is governed by the Ohio Revised Code. In accordance with the Ohio Revised Code, only banks located in Ohio and Ohio domestic building and loan associations are eligible to hold public deposits. Also, the investment of the College's monies is restricted to certificates of deposits, savings accounts, money market accounts, STAR Ohio, obligations of the United States government or certain agencies thereof and certain industrial revenue bonds issued by other governmental entities. The College may also enter into repurchase agreements with any eligible depository for a period not exceeding 30 days.

The College Treasurer's Office is responsible for selecting depositories and investing funds. Protection for the College's deposits is provided by the Federal Deposit Insurance Corporation, qualified securities pledged in the name of the College and held at the Federal Reserve, or by a collateral pool created by the financial institution to cover all local governmental deposits. The face value of the pooled collateral must equal at least 110% of the public funds on deposit. At least quarterly the College determines that the collateral has a market value adequate to cover the deposits.

(Continued)

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2004 and 2003

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

At year-end, the carrying amount of the College's deposits was \$3,516,902 and the bank balance was \$3,640,599. Of the bank balance:

1. \$100,000 was covered by federal depository insurance.
2. \$3,540,599 was uninsured and uncollateralized. Although the securities were held in pooled collateral by the pledging institution in the pledging institution's name and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the money held in the College's name to a successful claim by the FDIC.

GASB Statement 3 *Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements* requires that local governments disclose the carrying amount and market value of investments, classified by risk. The College's investments are categorized as either (1) insured or registered or for which the securities are held by the college or its agent in the College's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the College's name or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the College's name.

The College's short-term investments are with STAR Ohio. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry forms.

NOTE 3 - ACCOUNTS RECEIVABLE

Receivables at June 30, 2004 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.

(Continued)

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2004 and 2003

NOTE 4 - CAPITAL ASSETS

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

Capital assets at June 30, 2004 and 2003 are summarized as follows:

<u>Description</u>	June 30, <u>2003</u>	<u>Additions</u>	<u>Deletions</u>	June 30, <u>2004</u>
Land	\$ 302,404	\$	\$	\$ 302,404
Improvements	2,530,499			2,530,499
Buildings	23,844,701	425,344		24,270,045
Equipment, furniture and books	<u>10,965,152</u>	<u>1,303,579</u>	<u>(5,349,976)</u>	<u>6,918,755</u>
Total	37,642,756	<u>\$ 1,728,923</u>	<u>\$ (5,349,976)</u>	34,021,703
Accumulated depreciation	<u>(19,141,249)</u>	<u>\$ (990,077)</u>	<u>\$ 5,349,976</u>	<u>(14,781,350)</u>
Capital assets, net	<u>\$ 18,501,507</u>			<u>\$ 19,240,353</u>
	June 30, <u>2002</u>	<u>Additions</u>	<u>Deletions</u>	June 30, <u>2003</u>
Land	\$ 302,404	\$	\$	\$ 302,404
Improvements	2,354,748	175,751		2,530,499
Buildings	23,534,519	310,182		23,844,701
Construction in progress	247,841	(247,841)		--
Equipment, furniture and books	<u>10,679,938</u>	<u>315,439</u>	<u>(30,225)</u>	<u>10,965,152</u>
Total	37,119,450	<u>\$ 553,531</u>	<u>\$ (30,225)</u>	37,642,756
Accumulated depreciation	<u>(18,036,542)</u>	<u>\$ (1,127,413)</u>	<u>\$ 22,706</u>	<u>(19,141,249)</u>
Capital assets, net	<u>\$ 19,082,908</u>			<u>\$ 18,501,507</u>

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.

(Continued)

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2004 and 2003

NOTE 5 - STATE SUPPORT (Continued)

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 2004 and 2003, the College received capital project appropriations of approximately \$590,000 and \$254,000 respectively, under a program that involved another community college. The amounts shown as capital appropriations of \$476,735 and \$144,434 respectively are net of the amounts utilized by the other community college.

NOTE 6 - ACCRUED LIABILITIES

Accrued liabilities include payments for SERS and STRS, and alternative retirement benefit payments due on accrued salaries. Also included are vacation and sick leave benefits and salaries and wages payable at June 30, 2004.

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 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.

(Continued)

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2004 and 2003

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

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, 2004, 2003 and 2002 were \$511,990, \$489,194 and \$479,460 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, 2004, 2003 and 2002 were \$517,888, \$517,712 and \$489,288 respectively.

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.

(Continued)

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2004 and 2003

NOTE 8- POSTEMPLOYMENT BENEFITS (Continued)

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, 2003 (the latest information available) the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the College, this amount was \$160,000 during fiscal years 2004 and 2003. The balance in the Health Care Reserve Fund was \$2.8 billion on June 30, 2003 (the latest information available).

For the year ended June 30, 2003 (the latest information available), net health care costs paid by STRS were \$460 million and STRS had approximately 180,000 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% 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, 2003 (the latest information available) the allocation rate was 5.83%. 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 2003 (the latest information available), the minimum pay has been established at \$14,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 (the latest information available) were \$206.2 million and the target level was \$309.3 million. At June 30, 2003 (the latest information available), the Retirement System's net assets available for payment of health care benefits were \$303.6 million. The number of participants currently receiving health care benefits is approximately 64,000. The portion of the employer contributions that were used to fund post employment benefits was \$350,000 for 2004 and 2003.

(Continued)

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2004 and 2003

NOTE 9 - OPERATING EXPENSES BY NATURAL CLASSIFICATION

The College's operating expenses by natural classification were as follows for the years ended June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Salaries and wages	\$ 7,588,688	\$ 7,504,038
Employee benefits	2,309,739	2,221,600
Utilities	539,503	461,973
Supplies and other services	4,040,187	3,612,693
Depreciation	990,077	1,134,933
Student scholarships and financial aid	<u>575,364</u>	<u>150,056</u>
	<u>\$ 16,043,558</u>	<u>\$ 15,085,293</u>

NOTE 10 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts, theft of, damage to, and destructions of assets, errors and omissions, injuries to employees and natural disaster. The College contracts with Cincinnati Insurance Company for property and general liability insurance, including boiler, machinery and vehicle coverage. Vehicles hold a \$100 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 Great American Insurance Co. The College has not had a significant reduction in coverage from the prior year. Settled claims have not exceeded any aforementioned commercial coverage in any of the past four years.

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

The College contracts with Anthem Blue Cross and Blue Shield Insurance for hospitalization and dental insurance. The College pays 90% of the monthly premiums for health insurance coverage and the employee pays for the remaining 10% for full-time employees. The College pays 100% of the single dental premium as well.

(Continued)

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2004 and 2003

NOTE 11 - CAPITAL LEASE

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, 2004:

<u>Year</u>	
2005	\$ 215,106
2006	215,106
2007	215,106
2008	204,898
2009	<u>67,057</u>
Total minimum lease payment	917,273
Less: Amount representing interest	<u>(77,535)</u>
 Present value of future minimum lease payments	 <u>\$ 839,738</u>

The cost of equipment under capital leases for 2004 and 2003 was \$889,804 and \$69,805 respectively. Accumulated depreciation on equipment under capital leases for 2004 and 2003 was \$138,320 and \$11,634 respectively.

NOTE 12 - CONTINGENCIES

At June 30, 2004, 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.

(Continued)

TERRA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENT
Years ended June 30, 2004 and 2003

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.

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

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

	June 30, <u>2004</u>	December 31, <u>2003</u>
Money market funds	\$ 64,991	\$ 66,855
Debt securities	270,570	259,720
Equity securities	<u>344,042</u>	<u>350,807</u>
 Total investments	 <u>\$ 679,603</u>	 <u>\$ 677,382</u>

During the six months ended June 30, 2004 and the 12 months ended December 31, 2003, the Foundation made contributions of approximately \$190,000 and \$273,000 respectively to or on behalf of the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Terra College Foundation, 2830 Napoleon Road, Fremont, Ohio 43420.

SUPPLEMENTAL INFORMATION

TERRA COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2004

Federal Grantor/ Pass-Through Grantor/ <u>Program Title</u>	Pass through Entity <u>Number</u>	Federal CFDA <u>Number</u>	<u>Receipts Recognized</u>	<u>Program Expenditures</u>
<u>U.S. Department of Education</u>				
Student Financial Aid Cluster				
Pell Grant - Financial Aid	Direct	84.063	\$ 1,782,132	\$ 1,782,132
Pell Grant - Adm. Allowance	Direct	84.063	<u>4,435</u>	<u>4,435</u>
Total Pell Grant			1,786,567	1,786,567
Federal Supplemental Educational				
Opportunity Grant	Direct	84.007	74,130	74,130
Federal Work Study	Direct	84.033	62,535	62,535
Federal Family Education Loans (Note 2)	Direct	84.032	<u>2,040,831</u>	<u>2,040,831</u>
Total Student Financial Aid Cluster			3,964,063	3,964,063
Child Care				
Childcare Access Means Parents in School	Direct	84.335A	9,827	9,827
Pass through Ohio Department of Education				
Perkins Grant	VEC PII-P2003-509	84.048	43,022	43,022
Tech Prep	VETP-2003-18	84.243	<u>158,062</u>	<u>158,062</u>
Total Ohio Department of Education			201,084	201,084
Pass through Ohio Bureau of Vocational Rehab.				
Rehabilitation Services Basic Support	DLM 98094	84.126	<u>64,239</u>	<u>64,239</u>
Total U.S. Department of Education			4,239,213	4,239,213
<u>U.S. Department of Labor</u>				
Pass through Ohio Department of Job & Family Services				
Workforce Investment Act	48621	17.257	21,477	21,477
	48621	17.258	430,326	430,326
	48621	17.259	58,034	58,034
	48621	17.260	89,428	89,428
Pass through Ohio Department of Education				
Workforce Investment Act	063438-WF-HS-2004	17.258	9,535	9,535
Pass through Ohio Department of Employment Services				
Training Readjustment Act	6170	17.245	<u>14,519</u>	<u>14,519</u>
Total U.S. Department of Labor			623,319	623,319

(Continued)

TERRA COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2004

Federal Grantor/ Pass-Through Grantor/ <u>Program Title</u>	Pass through Entity <u>Number</u>	Federal CFDA <u>Number</u>	<u>Receipts</u> <u>Recognized</u>	<u>Program</u> <u>Expenditures</u>
<u>U.S. Department of Health & Human Services</u>				
Administration for Children & Families	224-53	93.558	\$ 2,026	\$ 2,026
	227-53	93.558	66	66
	230-53	93.558	5,420	5,420
Total U.S. Department of Health & Human Services			7,512	7,512
<u>U.S. Department of Veteran's Affairs</u>				
Veteran's Rehabilitation	14923435	64.116	21,647	21,647
<u>Small Business Administration</u>				
Pass through Ohio Dept. of Development				
Small Business Administration Center	56080	59.037	82,555	82,555
Total Federal Expenditures			\$ 4,974,246	\$ 4,974,246

TERRA COMMUNITY COLLEGE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2004

NOTE 1 - BASIS OF PRESENTATION

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

NOTE 2 - OUTSTANDING LOANS

The College does not make Federal Family Education Loans (FFELs). The amount presented of \$1,869,155 represents the value of new FFELs awarded during the year.

TERRA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2004

1. Summary of Auditor's Results

- a. An unqualified opinion was issued on the financial statements of Terra Community College for the year ended June 30, 2004.
- b. An unqualified opinion was issued to Terra Community College for compliance with major programs.
- c. The audit did not disclose any noncompliance that is material to the financial statements.
- d. There were no audit findings required to be disclosed under OMB Circular A-133 Section 510(a).
- e. Major Programs Identified:
 - Student financial aid cluster
 - Federal Pell Grant program
 - Federal Supplemental Educational Opportunity Grant
 - Federal Work Study program
 - Federal Family Education Loan program
 - Workforce Investment Act (CFDA: 17.258)
- f. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- g. The auditee was considered a low-risk auditee.

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

None.

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

None.

PRIOR YEAR FINDINGS

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



Crowe Chizek and Company LLC
Member Horwath International

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

Board of Trustees
Terra Community College
Sandusky County
Fremont, Ohio

We have audited the financial statements of Terra Community College (the College) as of and for the year ended June 30, 2004, and have issued our report thereon dated August 17, 2004. 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.

Our report noted that the College adopted the provisions of Governmental Accounting Standards Board Statement No. 39, "Determining Whether Certain Organizations Are Component Units", as of July 1, 2003.

Compliance

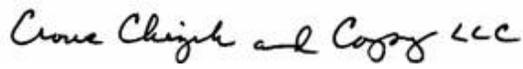
As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the 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 that is required to be reported under *Government Auditing Standards*.

However, we noted immaterial instances of noncompliance that we have reported to management of Terra Community College in a separate letter dated August 17, 2004.

Internal Control Over Financial Reporting

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

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


Crowe Chizek and Company LLC

Columbus, Ohio
August 17, 2004



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

Board of Trustees
Terra Community College
Sandusky County
Fremont, Ohio

Compliance

We have audited the compliance of Terra Community College (the College) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

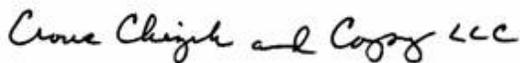
In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

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

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

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


Crowe Chizek and Company LLC

Columbus, Ohio
August 17, 2004



**Auditor of State
Betty Montgomery**

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800-282-0370

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**TERRA STATE 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
JANUARY 18, 2005**