

***TERRA COMMUNITY COLLEGE***

***AUDIT REPORT***

*For the year ending June 30, 2002*

***Charles E. Harris & Associates, Inc.***  
**Certified Public Accountants**





**Auditor of State  
Betty Montgomery**

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Board of Trustees  
Terra Community College  
Fremont, Ohio

We have reviewed the Independent Auditor's Report of Terra Community College, Sandusky County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2001 through June 30, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

January 22, 2003

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**TERRA COMMUNITY COLLEGE**

**Audit Report  
For the Year Ending June 30, 2002**

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TERRA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2002

### **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 ending June 30, 2002. Responsibility for the completeness and fairness of this information rests with the College. Due to this time period being the first of this reporting methodology, prior period financial statements have not been restated. Future years when prior-year end information is available, a comparative of financial data will be presented.

### **Using This Annual Report**

The new financial statement focuses on the College as a whole. The College 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 be similar to bottom line results for the College. This statement, for the first time, combines and consolidates, current financial resources (short-term spendable resources) with capital assets. The Statements of Revenues, Expenses and Changes in Net Assets focuses on both the gross and net costs of College activities. This approach is intended to summarize and simplify the user's analysis of cost of various College services to students and the public.

### **Financial Highlights**

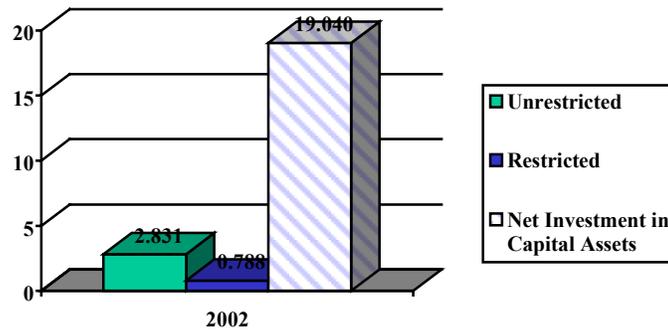
When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as Terra Community College's operating results.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets 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.

**Net Assets, Year Ended June 30, 2002**  
(in millions)

	<b>06/30/02</b>
Current Assets	\$5.331
Noncurrent Assets	19.118
<b>Total Assets</b>	<b>24.449</b>
Current Liabilities	1.394
Noncurrent Liabilities	.395
<b>Total Liabilities</b>	<b>1.789</b>
<b>Net Assets:</b>	
Invested in capital assets, net of related debts	19.040
Restricted	.788
Unrestricted	2.831
<b>Total Net Assets</b>	<b>\$22.659</b>

As of June 30, 2002, the College's net assets totaled \$22,659,818.



## Operating Results

### Operating Results for the Year Ended June 30, 2002 (in millions)

	06/30/02
<b>Operating Revenues</b>	
Tuition and Fees	\$6.082
Auxiliary Services	1.100
Other	<u>.340</u>
<b>Total Operating Revenues</b>	<b>7.522</b>
<b>Operating Expenses</b>	<b>15.022</b>
<b>Net Operating Revenues/(Expenses)</b>	<b>(7.500)</b>
<b>Nonoperating Revenues</b>	
State Grants and Contracts	7.116
Other nonoperating revenues	.226
Other nonoperating expenses	<u>(.003)</u>
<b>Net Nonoperating Revenues/(Expenses)</b>	<b>7.339</b>
<b>Increase/(Decrease) in Net Assets</b>	<b>(.161)</b>
<b>Net Assets</b>	
Net Assets – beginning of year	22.821
<b>Net Assets – end of year</b>	<b>22.660</b>

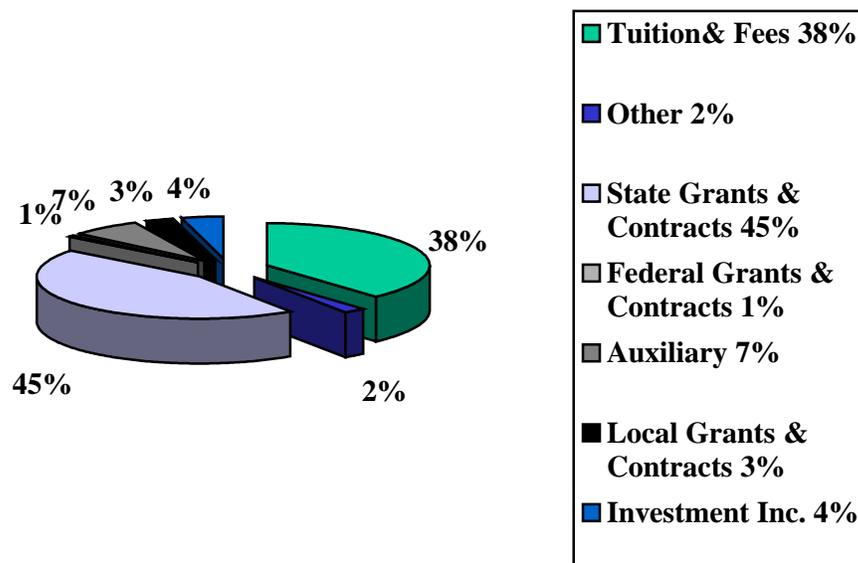
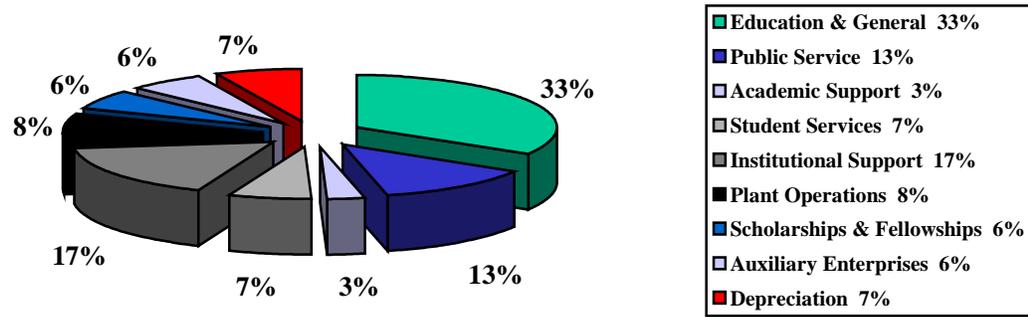
The decrease in net assets in fiscal year 2002 was mainly due to the purchase of equipment for the start-up of the nursing program and for the purchase of computer equipment for instructional labs. The nursing program consists of renovating current facilities for new usages of a distance learning instructional classroom and a four bed nursing lab with an interactive/distance learning station. The nursing program is expected to add 114 new students in the general education prerequisite courses in FY03 and 32 cohort nursing students in FY04.

## Operating Revenues

State Grants and Contracts decreased 6% due to the shortfall of revenues at the state. Higher Education as a sector was cut in order to make up for this state shortfall. As a resulting impact of decreased income flow to the College from the state, the College increased its marketing effort to increase enrollment. Fall 2001 enrollment was up 4.2%, Winter 2002 enrollment was up 7.4%, and Spring 2002 enrollment was up 4.3%. The College's Board of Trustees also increased tuition 3% in Fall 2001 and 3.1% in Winter 2002 along with the removal of the free zone (12-18 credit hours at a flat rate). All of these actions helped to offset the decline in state support.

With the increase in enrollment there was a natural corresponding increase in revenues in the auxiliary area. Combined with reorganization in this function, the College Store changed from a breakeven to a 9% net profit operation.

## Operating Expenses



**Operating Expenses for the Year Ended June 30, 2002  
(in Millions)**

	<b>06/30/02</b>
<b>Operating Expenses</b>	
Educational and General	
Education and General	\$5.342
Public Service	2.060
Academic Support	.470
Student Services	1.073
Institutional Support	2.673
Plant Operations	1.247
Scholarships & Fellowships	.099
Depreciation	1.112
Total Educational and General	14.076
Auxiliary Enterprises	.946
<b>Total Operating Expenses</b>	<b>\$15.022</b>

Operating expenses at June 30, 2002, decreased \$141,706 (1%) over the same period in fiscal year 2001. This decrease was caused primarily by the reduction of two positions in July 2001 and ten positions in October 2001.

While there were increases in the academic and student support services areas in expenditures, they were more than offset by decreases in institutional support and plant operations. Most of these decreases were due to the position reductions as mentioned above and renegotiation and reduced consumption of contracts such as telecommunications and utilities.

Fiscal year 2002 is the first year in which depreciation was recorded. An accumulated depreciation charge of \$18,036,542 was incurred due to this implementation.

**The Statement of Cash Flows**

Another way to assess the financial health of an institution is to look at the Statement of Cash Flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The Statement of Cash Flows also helps users assess an entity's ability to generate future net cash flows, its ability to meet its obligations as they come due and its needs for external financing.

**Cash Flows for the Year Ended June 30, 2002**  
(in millions)

	06/30/02
Cash provided (used) by:	
Operating Activities	\$(6.013)
Noncapital financial activities	7.202
Capital and related financing activities	(.163)
Investing activities	.066
<b>Net increase (decrease) in cash</b>	<b>\$1.092</b>
<b>Cash, beginning of the year</b>	<b>2.496</b>
<b>Cash, end of the year</b>	<b>3.588</b>

The college's liquidity improved during the year, hence the increase in the ending cash balance of \$1,091,934.

**Capital Assets**

**Capital Assets, Net for the Year Ended June 30, 2002**  
(in millions)

	06/30/02	06/30/01	Increase (Decrease)	Percent Change
Capital Assets				
Land and Improvements	2.7	2.7	0	0%
Buildings	23.7	23.5	.2	1%
Equipment	10.7	12.0	-1.3	-11%
Total	37.1	38.2	-1.1	-3.0%
Less Accumulated				
Depreciation	-18.0	-18.4	.4	-2%
Net Capital Assets	19.1	19.8	-.7	-4%

At June 30, 2002, the College had \$19.1 million invested in capital assets, net of accumulated depreciation of \$18 million. The increase in buildings line item was due to a renovation project of a distance learning classroom, CollegeStore and consolidation of the Financial Services offices. The renovation was paid for with basic renovation funds received from the State. The decrease in equipment in FY02 is due to the change in the capitalization threshold from \$400 to \$1,000.

The College has received a grant through the State to begin the preparation for a nursing program. The College received approximately \$255,000 through a special award program. During FY03 approximately \$280,000 of the college's unrestricted funds will be used to renovate facilities for this program.

## **Debt**

The college only has one long-term obligation of a capital lease for a remaining balance of \$35,171. The current portion of this obligation is \$7,539. The lease is for a CNC lathe in the Engineering Technologies division and is guaranteed by pledges through the Terra Community College Foundation.

## **Economic Factors That Will Affect the Future**

The economic position of Terra Community College is closely tied to that of the State. Because of limited economic growth and increased demand for state resources from federal mandates, the current state budget projects a reduction in funding in at least the next two years. State Share of Instruction for FY03 is projected at \$5.5 million or 96.76% of FY02. Projections for the FY04 show further reductions.

In FY02, the College was able to offset most of the losses in state funding through growth in enrollment. Unfortunately, this does not look like the case for FY03. Fall enrollment was down 3.4%.

Fully aware of the potential of additional funding losses from the State, the Board of Trustees approved a 9.9% tuition increase effective Fall 2002 in March of 2002.

Known expense increases in FY03 are 4.5% faculty salary increase and a 13% medical insurance increase.

**Charles E. Harris & Associates, Inc.**  
**Certified Public Accountants**

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**REPORT OF INDEPENDENT ACCOUNTANTS**

The Board of Trustees  
Terra Community College

We have audited the accompanying basic financial statements of Terra Community College, (a nonprofit organization) a component unit of the State of Ohio, as of June 30, 2002, as listed in the table of contents. These basic financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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 basic 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 opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Terra Community College as of June 30, 2002, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the basic financial statements, the College adopted Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and No. 38, *Certain Financial Statement Note Disclosures*. These statements result in a change in format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2002 on our consideration of Terra Community College's internal control over financial reporting and our tests of 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.

The Management's Discussion and Analysis on pages 1 - 7 is not a required part of the basic financial statements but is supplementary 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 the supplementary information. However, we did not audit the information and express no opinion on it.

**Our audit was made for the purpose of forming an opinion on the basic financial statements of Terra Community College taken as a whole. 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.**

***Charles E. Harris & Associates, Inc.***  
**October 17, 2002**

**TERRA COMMUNITY COLLEGE**  
**STATEMENT OF NET ASSETS**  
**June 30, 2002**

ASSETS	2002
Current Assets	
Cash and cash equivalents	\$ 1,860,441
Short-term investments	1,727,628
Intergovernmental receivable	159,971
Due from State of Ohio	601,040
Loans receivable, net	6,967
Other receivables	667,644
Inventory	257,619
Other assets	49,514
Total current assets	5,330,824
Non-current Assets	
Long-term other receivables	35,171
Capital assets, gross	37,119,450
Accumulated depreciation	(18,036,542)
Total assets	24,448,903
LIABILITIES	
Current Liabilities	
Accounts payable and accrued liabilities	876,123
Deferred revenue	245,270
Capital lease obligation	7,539
Compensated absences	265,421
Total current liabilities	1,394,353
Non current Liabilities	
Capital lease obligations, long-term	35,171
Compensated absences	359,561
Total Liabilities	1,789,085
NET ASSETS	
Invested in capital assets, net of related debt	19,040,198
Restricted for: Expendable	
Other	55,367
Capital projects	732,995
Unrestricted	2,831,258
Total Net Assets	22,659,818
Total liabilities and net assets	\$ 24,448,903

The accompanying notes are an integral part of this statement

**TERRA COMMUNITY COLLEGE**  
**STATEMENT OF REVENUES, EXPENSES,**  
**CHANGES IN NET ASSETS**  
**For the Year Ended June 30, 2002**

REVENUES	2002
Operating Revenues	
Tuition and student fees, net of scholarship allowances of \$1,445,037	\$ 6,081,251
Auxiliary enterprises revenue	1,100,181
Other operating revenue	340,002
Total operating revenues	7,521,434
 EXPENSES	
Operating expenses:	
Education and General	5,342,095
Public Service	2,060,237
Academic Support	469,514
Student services	1,073,150
Institutional support	2,673,146
Operation and maintenance of plant	1,247,326
Scholarships and fellowships	98,648
Auxiliary enterprises	945,786
Depreciation	1,111,887
Total Operating expenses	15,021,789
OPERATING INCOME/(LOSS)	(7,500,355)
 NONOPERATING REVENUES/EXPENSES	
State grants and contracts	7,116,581
Federal grants and contracts	115,465
Local grants and contracts	44,429
Investment income	65,925
Interest on lease	(3,113)
Total nonoperating revenues/expenses	7,339,287
Increase in net assets	(161,068)
Net assets - beginning of year	22,820,886
Net assets - end of year	\$ 22,659,818

The accompanying notes are an integral part of this statement

**TERRA COMMUNITY COLLEGE**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2002**

<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	
Tuition and fees	\$ 3,639,838
Grants and contracts	2,577,745
Other Income	355,204
Auxiliary enterprise charges	1,111,657
Payments to suppliers	(4,000,838)
Payroll and fringe benefits	(9,597,528)
Scholarships and fellowships	(98,648)
	(6,012,570)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State appropriations	6,811,521
Grants and contracts	390,327
	7,201,848
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of capital assets	(153,061)
Repayment of capital lease	(7,095)
Interest on capital lease	(3,113)
	(163,269)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	65,925
	65,925
Net cash provided (used) by investing activities	65,925
Net increase (decrease) in cash	1,091,934
Cash and Cash Equivalents, Beginning of Year	2,496,135
Cash and Cash Equivalents, End of Year	\$ 3,588,069

(Continued)

**TERRA COMMUNITY COLLEGE**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2002**  
**(continued)**

Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities	
Operating loss	\$ (7,500,355)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:	
Depreciation	1,111,887
Changes in net assets:	
Receivables	815,158
Inventories	18,604
Prepaid expenses	(13,786)
Accounts payable	92,228
Accrued salaries and benefits	(83,061)
Deposits held	17,006
Deferred revenue	<u>(470,252)</u>
Net cash used by operating activities	\$ <u><u>(6,012,570)</u></u>

The accompanying notes are an integral part of this statement

**TERRA COMMUNITY COLLEGE**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2002**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES**

The significant accounting policies followed by Terra Community College are described below to enhance the usefulness of the financial statements to the reader.

**The Reporting Entity**

As defined by GASB Statement No. 14, "The Financial Reporting Entity," the College is not financially accountable for any other entity nor are there any other entities for which the nature and significance of their relationship with the College are such that exclusion would cause the College's financial statements to be misleading or incomplete.

The College is a component unit of the State of Ohio and is included in the general-purpose statements of the State of Ohio.

**Financial Statement Presentation**

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. As a component of the State of Ohio, the College is also required to adopt GASB No. 34 and No. 35. The financial statement presentation required by GASB No. 34 and GASB No. 35 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, changes in net assets, cash flows, and replaces the fund-group perspective previously required.

Effective July 1, 2001, the College adopted two related GASB Statements: GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38, "*Certain Financial Statement Note Disclosures*." These statements establish comprehensive new financial reporting requirements for governmental colleges and universities throughout the United States. Much of the reporting of the College has been restructured and includes management discussion and analysis. Significant accounting changes made in order to comply with the new requirements included adoption of depreciations on capital assets.

Significant accounting changes made in order to comply with the new requirements include adoption of depreciation on capital assets. The cumulative effect of applying GASB Statement No. 35 to the College's financial statements is reported as a restatement of beginning net assets. The following is a reconciliation of the total June 30, 2001 net assets as previously reported, to the restated Net Assets – Beginning of the Year balances reported on the Statement of Revenues, Expenditures and Changes in Net Assets:

	<b><u>June 30, 2001</u></b>
Combined net assets, as previously reported	\$ 41,223,967
Restatements	<u>(18,403,081)</u>
Combined net assets, restated	<b><u>\$ 22,820,886</u></b>

**TERRA COMMUNITY COLLEGE**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2002**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES** - (continued)

**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. All significant intra-agency transactions have been eliminated.

The College has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected to not apply FASB pronouncements issued after the applicable date.

**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. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of debt.

*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.

*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, 2002, the College had no nonexpendable restricted assets.

*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. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense towards unrestricted resources, and then towards restricted resources.

**TERRA COMMUNITY COLLEGE**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2002**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES** – (continued)

**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. Funds invested through the State Treasury Asset Reserve of Ohio Fund (StarOhio) are considered 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 uncollectable 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.

**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 \$1,000 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.

**TERRA COMMUNITY COLLEGE**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2002**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES** - (continued)

**Compensated Absences**

Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued vacation payable 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 that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

**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.

**TERRA COMMUNITY COLLEGE**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2002**

**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.

At year end, the carrying amount of the College's deposits was \$(320,537) and the bank balance was \$2,251,405. Of the bank balance:

1. \$100,000 was covered by federal depository insurance.
2. \$2,151,405 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.

The large negative carrying amount is due to the College investing in overnight repurchase agreements.

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.

	Risk Category			Carrying Value	Fair Value
	<u>1</u>	<u>2</u>	<u>3</u>		
Repurchase Agree.	- 0 -	- 0 -	\$2,178,469	\$2,178,469	\$2,178,469
STAR Ohio	<u>- 0 -</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>1,727,628</u>	<u>1,727,628</u>
<b>TOTAL</b>	<u><u>-0-</u></u>	<u><u>- 0 -</u></u>	<u><u>\$2,178,469</u></u>	<u><u>\$ 3,906,097</u></u>	<u><u>\$ 3,906,097</u></u>

Star Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry forms.

**TERRA COMMUNITY COLLEGE**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2002**

**2. DEPOSITS AND INVESTMENTS - (continued)**

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement 9	\$ 3,588,069	\$ - 0 -
Cash on Hand	(2,509)	
Investments:		
Star Ohio	(1,727,628)	1,727,628
Repurchase Agreement	<u>(2,178,469)</u>	<u>2,178,469</u>
GASB Statement 3	<u>\$ (320,537)</u>	<u>\$ 3,906,097</u>

**3. ACCOUNTS RECEIVABLE**

Receivables at June 30, 2002 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.

**4. CAPITAL ASSETS**

Changes in capital assets at June 30, 2002 is composed of the following:

<u>Description</u>	<u>Balance 07/01/01</u>	<u>Additions</u>	<u>Deletions</u>	<u>Capitalization Change</u>	<u>Balance 06/30/02</u>
Land	\$ 302,404	\$ -	\$ -	\$ -	\$ 302,404
Improvements	2,354,748	-	-	-	2,354,748
Buildings	23,534,519	-	-	-	23,534,519
Construction in Progress	-	247,841	-	-	247,841
Equipment, Furniture & Books	<u>12,005,296</u>	<u>152,647</u>	<u>(825,380)</u>	<u>(652,625)</u>	<u>10,679,938</u>
<b>Total</b>	<b>\$38,196,967</b>	<b>\$400,488</b>	<b>(825,380)</b>	<b>(652,625)</b>	<b>\$37,119,450</b>
Less:					
Accumulated Depreciation	<u>(16,924,655)</u>	<u>(1,111,887)</u>	<u>-</u>	<u>-</u>	<u>(18,036,542)</u>
<b>Capital assets, net</b>	<b><u>\$21,272,312</u></b>				<b><u>\$19,082,908</u></b>

**TERRA COMMUNITY COLLEGE**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2002**

**5. STATE SUPPORT**

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

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

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

**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, 2002.

The SERS and STRS payable represents withholdings made from employees in fiscal 2002 to be paid to the School Employees Retirement System and the State Teachers Retirement System in fiscal 2003. Vacation/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 fiscal year 2002 but not paid until fiscal year 2003. It is mostly faculty contracts that are earned but not yet paid at year-end.

**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.

**TERRA COMMUNITY COLLEGE**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2002**

**7. DEFINED BENEFIT PENSION PLANS - (continued)**

Plan members are required to contribute 9 percent 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, 2002, 2001 and 2000 were \$ 479,466, \$486,304, and \$427,687, respectively. Ninety nine percent been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$769, representing the unpaid contributions for fiscal year 2002, is recorded as a liability.

**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 9.3 percent of their annual covered salary and Terra Community College is required to contribute 14 percent, 9.5 percent (the latest information available) was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 members for employers. The College's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$489,288, \$552,721, and \$587,061 respectively. Ninety two percent has been contributed for fiscal years 2002, and 100 percent for fiscal years 2001 and 2000. \$40,805, representing the unpaid contributions for fiscal year 2001, is recorded as a liability.

**8. POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 2001 (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 equaled \$157,271 during fiscal year 2002. The balance in the Health Care Reserve Fund was \$3.256 billion on June 30, 2001 (the latest information available).

For the year ended June 30, 2001 (the latest information available), net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

**TERRA COMMUNITY COLLEGE**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2002**

**8. 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, 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 percent 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, 2001 (the latest information available) the allocation rate was 9.8 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001 (the latest information available), the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent 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 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available) were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001 (the latest information available), the Retirement System's net assets available for payment of health care benefits was \$315.7 million. The number of participants currently receiving health care benefits is approximately 50,000. The portion of the employer contributions that were used to fund postemployment benefits was \$335,626.

**9. RISK MANAGEMENT**

The College is exposed to various risks of loss related torts, theft of, damage to, destruction of assets, errors and omissions, injuries to employees and natural disasters. During the fiscal year 2002, the College contracted with several insurance companies for coverage of buildings and contents.

The following is a list of insurance coverages of the College and the deductibles associated with each:

<u>Type of Coverage</u>	<u>Limits</u>	<u>Deductible</u>
Property		
Building	28,195,866	1,000 per occurrence
Personal Property	20,518,409	1,000 per occurrence
Difference in Conditions	5,000,000	25,000 per occurrence - Flood
	5,000,000	25,000 per occurrence - Earthquake
		1,000 per occurrence - all other
Business Income	5,000,000	None
Boiler and Machinery		
Direct Damage	7,000,000	1,000 per accident
Business Income		
and Extra Expense	5,000,000	1,000 per accident
Spoilage	10,000	1,000 per accident
Off Premises Services		
Interruption	200,000	1,000 per accident
Miscellaneous Items	25,000	1,000 per accident
Media	100,000	1,000 per accident
Expediting Expenses	25,000	1,000 per accident

**TERRA COMMUNITY COLLEGE**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2002**

**9. RISK MANAGEMENT - (continued)**

<b>Data Processing</b>		
Equipment	1,000,000	1,000 per accident
Valuable Papers	500,000	100 per occupance
Inland Marine	193,407	100 (80% co-insurance)
Combination Crime	1,000,000	1,000 per occurrence
<b>Commercial General Liability</b>		
Each Occurrence	1,000,000	None
Personal and Advertising	1,000,000	None
Premises Medical Expense	5,000	None
Fire Legal Liability	100,000	None
General Aggregate Limit	2,000,000	None
Products and Completed		
Operations Aggregate	1,000,000	None
Ohio Stop Gap Coverage	1,000,000	None
Employee Benefit Liability	1,000,000	1,000
<b>Business Automobile</b>		
Bodily Injury and Property		
per accident	1,000,000	100 comp. and 500 collision
Uninsured/Underinsured		
per accident	1,000,000	100 comp. and 500 collision
Medical Payments		
per person	5,000	100 comp. and 500 collision
Hired and Non-Owned Auto	1,000,000	50000
Garage Insurance		
Per accident	1,000,000	500
Aggregate	3,000,000	NA
Legal Liability		
Excess Comprehensive	50,000	500
Excess Collision	50,000	500
Umbrella Liability	1,000,000	1,000

Settled claims have not exceeded commercial coverage in any of the past three years. Also, the College did not significantly reduce coverages during the year.

All employees of the College are covered by a blanket bond, while certain individuals in policy making roles are covered by a separate, higher bond coverage.

The College pays the State Worker's Compensation System a premium based on a rate per \$100 of salaries. The rate is calculated based on accident history and administrative costs.

The College provides health care insurance for full-time employees. The College contributes 90% of the premium for full-time employees. The College pays 100% of the single dental premium as well.

**TERRA COMMUNITY COLLEGE**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2002**

**9. RISK MANAGEMENT - (continued)**

The monthly premiums paid by the College are as follows:

	<u>Single Coverage</u>	<u>Family Coverage</u>
<b><u>Full- Time Staff</u></b>		
Health	\$204.89	\$552.83
Dental	24.40	80.30
<b><u>Full-Time Faculty</u></b>		
Health	188.88	518.32
Dental	24.40	80.30

**10. CAPITAL LEASE**

The College has entered into a lease agreement for financing the acquisition of capital equipment. This lease qualifies as a capital lease for accounting purposes (title transfers at the end of the lease term) and, therefore, has 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 this capital lease and the present value of the net minimum lease payments at June 30, 2002:

	<u>Year</u>
	2003
	2004
	2005
	2006
	2007
	<u>\$10,208</u>
	<u>10,208</u>
<b>Total minimum lease payment</b>	<b>51,040</b>
<b>Less: Amount representing interest</b>	<b><u>(8,330)</u></b>
<b>Present value of future minimum lease payments</b>	<b><u>\$ 42,710</u></b>

*TERRA COMMUNITY COLLEGE*  
Notes to the Financial Statements  
For the Year Ended June 30, 2002

11. PENDING LITIGATION

At June 30, 2002, 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.

**TERRA COMMUNITY COLLEGE**  
Schedule of Federal Awards Expenditures  
For the Year Ended June 30, 2002

Federal Grantor/Program Title	Pass Through Entity Number	CFDA Number	Receipts Recognized	Program Expenditures
<u><i>U.S. Department of Education</i></u>				
Student Financial Aid Cluster				
Pell Grant - Financial Aid	Direct	84.063	\$ 1,360,737	\$ 1,360,737
Pell Grant - Adm. Allowance	"	84.063	3,895	3,895
Total Pell Grant			<u>1,364,632</u>	<u>1,364,632</u>
S.E.O.G. - Financial Aid	"	84.007	58,600	58,600
Federal Work Study	"	84.033	70,370	70,370
Total Student Financial Aid Cluster			1,493,602	1,493,602
Pass through Ohio Department of Education				
Perkins Grant	VEC PII-P2002-509	84.048	63,236	63,236
Tech Prep	VETP-2002-18	84.243	397,231	397,231
Total Ohio Department of Education			460,467	460,467
Pass through Ohio Bureau of Vocational Rehab.				
Rehabilitation Services Basic Support	DLM 98094	84.126	44,875	44,875
Total U.S. Department of Education			1,998,944	1,998,944
<u><i>U.S. Department of Labor</i></u>				
Pass through Ohio Department of Job & Family Services				
Workforce Investment Act	48621	17.255	560,935	560,935
Pass through Ohio Department of Employment Services				
Training Readjustment Act	6170	17.245	6,182	6,182
Total Ohio Department of Job & Family Services			<u>567,117</u>	<u>567,117</u>
Total U.S. Department of Labor			567,117	567,117
<u><i>U.S. Department of Veteran's Affairs</i></u>				
Veteran's Rehabilitation	14923435	64.116	20,333	20,333
Total U.S. Department of Veteran's Affairs			20,333	20,333
<u><i>Small Business Administration</i></u>				
Pass through Ohio Dept. of Development				
Small Business Administration Center	56080	59.037	63,882	63,882
Total Small Business Administration			63,882	63,882
Total Federal Expenditures			<u>\$ 2,650,276</u>	<u>\$ 2,650,276</u>

See accompanying Notes to the Schedule of Federal Awards Expenditures

**TERRA COMMUNITY COLLEGE**  
**Notes to the Schedule of Federal Awards Expenditures**  
**For the Year Ended June 30, 2002**

1. **General**

The accompanying Schedule of Federal Awards Expenditures of Terra Community College presents the activity of all federal awards of the College. The College reporting entity is defined in Note 1 to the financial statements. Federal awards received directly from federal agencies as well as federal awards passed through other governmental agencies are included on this schedule.

2. **Basis of Accounting**

The basis of accounting for this schedule is the accrual basis, which is consistent with the financial reporting basis. See Note 1 to the financial statements.

3. **Guaranteed Student Loans**

During the fiscal year ended June 30, 2002, Terra Community College processed the following amount of new loans under the Guaranteed Student Loan Program (which includes Stafford Loans, Parent's Loans for Undergraduate Students, and Supplement Loans for Students). These loans are not required to be included on the Schedule of Federal Awards Expenditures, but are subject to testing based on OMB Circular A-133.

	<b><u>CFDA Number</u></b>	<b><u>Amount Authorized</u></b>
Guaranteed Student Loans	84.802	\$ 1,047,761

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

The Board of Trustees of  
Terra Community College  
Fremont, Ohio

We have audited the basic financial statements of Terra Community College (a nonprofit organization) as of and for the year ended June 30, 2002, and have issued our report thereon dated October 17, 2002, wherein we noted the College adopted Governmental Accounting Standards Board Statement Nos. 34, 35, 37 and 38 for the year ended June 30, 2002. 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.

**Compliance**

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 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 are required to be reported under *Government Auditing Standards*.

**Internal Controls 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 to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the College in a separate letter dated October 17, 2002.

This report is intended for the information and use of management, the Board of Trustees, 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.

*Charles E. Harris & Associates, Inc.*  
October 17, 2002

*Charles E. Harris & Associates, Inc.*  
*Certified Public Accountants*

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

The Board of Trustees of  
Terra Community College  
Fremont, Ohio

**Compliance**

We have audited the compliance of Terra Community College (a nonprofit organization) with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program cluster for the year ended June 30, 2002. The College's major federal program cluster 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 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 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 its major federal program cluster for the year ended June 30, 2002.

**Internal Control Over Compliance**

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

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

**This report intended for the information and use of management, the Board of Trustees, 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.**

***Charles E. Harris & Associates, Inc.***  
**October 17, 2002**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 SECTION .505**

**TERRA COMMUNITY COLLEGE  
SANDUSKY COUNTY  
June 30, 2002**

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

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unqualified
(d)(1)(ii)	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(ii)	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	No
(d)(1)(iv)	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
(d)(1)(vi)	<i>Are there any reportable findings under Section .510</i>	No
(d)(1)(vii)	<i>Major Programs:</i>	Student Financial Aid Cluster: Pell Grant CFDA 84.063 S.E.O.G. CFDA 84.007 Federal Work Study CFDA 84.023
(d)(1)(viii)	<i>Dollar Threshold: Type A\B Programs</i>	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	Yes

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)**  
**OMB CIRCULAR A-133 SECTION .505**

**TERRA COMMUNITY COLLEGE**  
**SANDUSKY COUNTY**  
**June 30, 2002**

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

None.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.

**STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS**

**The prior audit report, as of June 30, 2001, included no material citations or recommendations.**





**Auditor of State  
Betty Montgomery**

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**TERRA COMMUNITY COLLEGE**

**SANDUSKY COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 30, 2003**