McGladrey & Pullen

Certified Public Accountants

Harford Community College

Component Unit Financial Statements
June 30, 2008

Harford Community College

Contents

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Trustees
Harford Community College
Bel Air, Maryland

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Harford Community College (the College), a component unit of Harford County, Maryland, as of and for the year ended June 30, 2008, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these 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 financial statements are free of material misstatement. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the College as of June 30, 2008, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, Harford Community College adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*, as of July 1, 2007.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 9, 2008 on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 10 and Schedule of Other Postemployment Benefits on page 28 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standard Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The Budgetary Comparison Schedule – General Operating Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information, except for the budget information in the Budgetary Comparison Schedule – General Operating Fund marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Blue Bell, Pennsylvania
October 9, 2008

Overview of the Financial Statements and Financial Analysis
The discussion and analysis of Harford Community College's (the College) financial statements provides an overview of the College's financial activities for the year ended June 30, 2008. Management has prepared this discussion along with the financial statements and related footnote disclosures. *Management's Discussion and Analysis* should be read in conjunction with the financial statements. Responsibility for the completeness and fairness of this information rests with the College.

The entity-wide financial statements designed to emulate corporate presentation models whereby all College activities are consolidated into one total. This approach is intended to summarize and simplify the user's analysis of the cost of various College services to students and the public. This report consists of three basic financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and, the Statement of Cash Flows. These statements provide an overall view of the College's financial activities, both current and long-term. Notes to the financial statements are required to complete the entity-wide statements and are an integral component of the basic financial statements.

Statement of Net Assets
The Statement of Net Assets is a financial statement that provides a fiscal snapshot of the institution's financial position at a selected point in time. Total net assets represent the difference between total assets and total liabilities and are one of the indicators of the current financial condition of the College. Readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the College. Over time, changes in net assets are indicators of the improvement or erosion of the College's financial health when considered along with non-financial facts, such as enrollment changes and the condition of facilities.

The assets and liabilities are categorized between current and noncurrent. Current assets and current liabilities mature or become payable within the normal 12-month accounting cycles while noncurrent assets and liabilities mature or become payable after 12 months. For June 30, 2008, the College's current assets consist primarily of cash and short-term investments while noncurrent assets consist primarily of capital assets, including property, plant, and equipment maintained by the College. All of College's liabilities except compensated absences are considered short-term in nature.

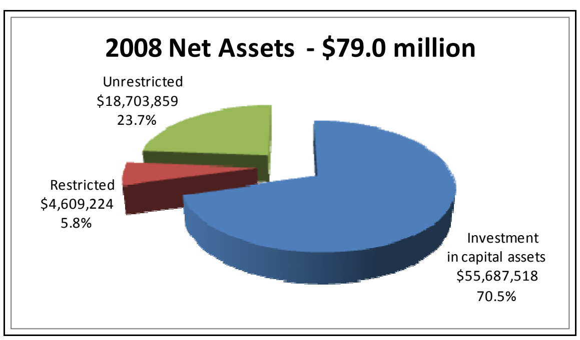
Net assets are divided into four major categories:

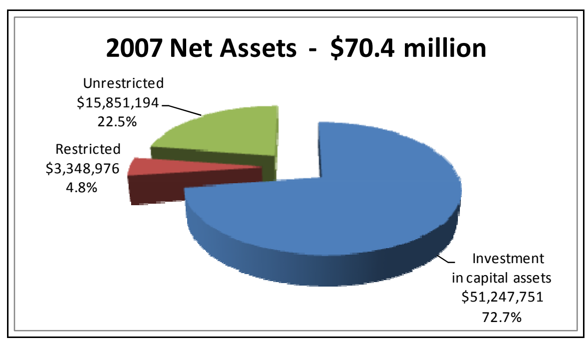
- Unrestricted net assets - available to the College for any lawful purpose.
- Capital assets - the College's ownership equity in property, plant and equipment, net of related debt.
- Expendable restricted net assets - available to be spent by the College after externally imposed stipulations have been fulfilled or after the passage of time.
- Nonexpendable restricted net assets – result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or removed by the College's actions.

CONDENSED STATEMENTS OF NET ASSETS

	June 30, 2008	% of total	June 30, 2007	% of total
Assets				
Current assets	$ 25,752,483	30.4%	$ 24,010,520	31.9%
Noncurrent assets	59,028,563	69.6%	51,247,751	68.1%
Total assets	84,781,046	100.0%	75,258,271	100.0%
Liabilities				
Current liabilities	4,962,817	85.9%	4,015,272	83.5%
Noncurrent liabilities	817,628	14.1%	795,078	-
Total liabilities	5,780,445	100.0%	4,810,350	83.5%
Net Assets				
Investment in capital assets	55,687,518	70.5%	51,247,751	72.7%
Restricted	4,609,224	5.8%	3,348,976	4.8%
Unrestricted	18,703,859	23.7%	15,851,194	22.5%
Total net assets	$ 79,000,601	100.0%	$ 70,447,921	100.0%

Fiscal Year 2008 compared to 2007. Net Assets increased $8.6 million from $70.4 million in FY 2007 to $79 million in 2008. Current assets increased by $1.7 million. Current assets include funds due for federal aid and for state and county funding of capital project expenses. Current liabilities consist of accounts payable, accrued liabilities and deferred revenue, plus deposits held for students who made early payments of FY 2009 tuition and fees. The change in Current Assets and Liabilities from the prior year reflects an increase in cash provided by additional tuition and interest income revenue as well as payments received from the State and County for capital project expenses. It also reflects an increase in the amount due to College suppliers.





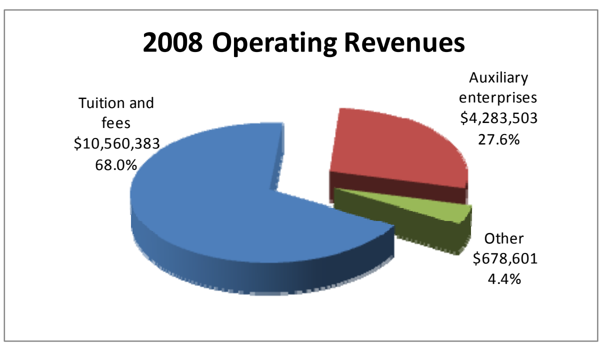
Restricted net assets consist of student loans, scholarships, and capital projects. Restricted capital project assets account for the major portion of the change in restricted net assets as the College portion of capital project revenue has yet to be spent. The increase in unrestricted net assets reflects the College's continuing efforts at cost containment and not completely spending all that was budgeted. In addition, increased revenue generation above what was initially budgeted occurred with tuition and fees and interest income. Efficient operations of the auxiliary enterprises (food services, cultural events, college store, sports complex, and radio station) increased unrestricted net assets.

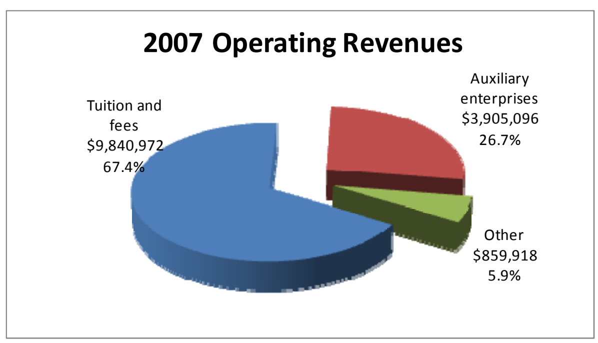
Statement of Revenues, Expenses and Changes in Net Assets

The purpose of this statement is to present the revenues received and expenses paid by the College, both operating and non-operating, as well as any other revenues, expenses, gains and losses received or spent by the institution.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

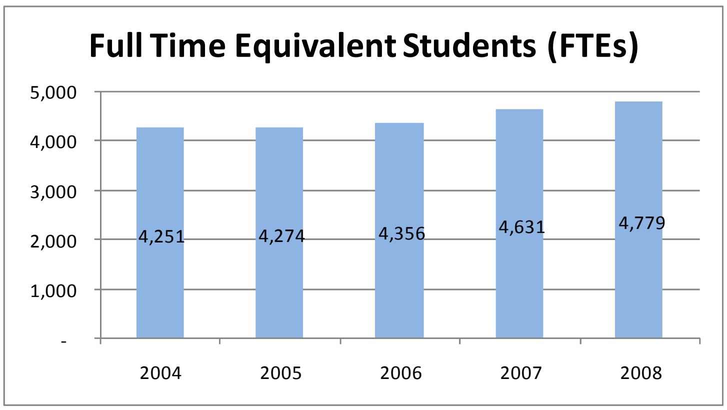
	Years Ended June 30, 2008	2007	Percent Change
OPERATING REVENUE			
Tuition and fees	$ 10,560,383	$ 9,840,972	7.3%
Auxiliary enterprises	4,283,503	3,905,096	9.7%
Other	678,601	859,918	-21.1%
Total operating revenue	15,522,487	14,605,986	6.3%
OPERATING EXPENSES	45,319,579	42,819,633	5.8%
Net operating loss	(29,797,092)	(28,213,647)	5.6%
NONOPERATING REVENUES (EXPENSES)			
Certain fringe benefits paid directly by the State of Maryland	1,633,395	1,309,301	24.8%
State grants and contracts	10,993,159	9,912,127	10.9%
Federal grants and contracts	2,495,207	2,377,560	4.9%
Local grants and contracts	16,392,564	14,817,780	10.6%
Contributions	578,142	775,708	-25.5%
Interest income	788,179	1,025,661	-23.2%
Total nonoperating revenues	32,880,646	30,218,137	8.8%
Income (loss) before other revenues	3,083,554	2,004,490	53.8%
Harford County capital grants	5,469,126	988,441	453.3%
INCREASE IN NET ASSETS	8,552,680	2,992,931	185.8%
NET ASSETS, BEGINNING OF YEAR	70,447,921	67,454,990	4.4%
NET ASSETS, END OF YEAR	$ 79,000,601	$ 70,447,921	12.1%





Generally speaking, operating revenues are received for providing goods and services to students and other various constituencies and customers of the College. Operating expenses are paid to acquire or produce the goods and services that are provided in return for operating revenues, thus carrying out the mission of the College. Non-operating revenues are receipts for which goods and/or services are not provided. For example, State and local appropriations are considered non-operating because they are provided to the College by the appropriate governmental entity without it directly receiving commensurate goods and/or services.

Fiscal Year 2008 compared to 2007. Net assets increased $8.6 million or 12.1% for FY2008. This increase was generated principally through increases in local funding from Harford County for college operations and capital projects, the increase in state funding including the direct payment by the state of eligible retirement benefits, an increase of tuition and fees associated with enrollment growth, and expanded auxiliary operations that support enrollment and community activities. Specifically, state appropriations for operations increased by 17.7% based on the Cade funding formula. This revenue is included in state grants and contracts. Total county appropriations increased as capital funding was received on such capital projects as the Aberdeen Hall renovation, the new phone system, the Luminous Portal, and parking lot enhancements. Within operating revenues there was an increase of $1,194,457 in gross tuition and fee revenue (before scholarship allowances), a change of 9.8%. At the same time, full-time equivalent student (FTE) enrollment increased by 3.2%. Since tuition and fee rates remained unchanged in Fiscal Year 2008 from Fiscal Year 2007, this indicated that revenue grew faster than enrollment meaning more credit hours and noncredit courses were generated per FTE student.



The major components of the 21.1% decrease in other operating revenue were reductions in administrative charges, testing fees, and state reimbursements for selected tuition waivers. Additionally, interest income decreased by 23.2% reflecting lower interest rates. This change is evident, for example, with interest rates that fluctuated from 5.24% high in FY 2007 to 2.32% in FY 2008 with MLGIP.

Analyzing operating and nonoperating revenues together, for FY 2008, tuition and fees net of scholarship allowances, comprise 19.6% of total revenues. State and county funding, including the state payment for retirement, provided an additional 64.0% of operating and nonoperating revenues. The Auxiliary enterprises make up 8.0% of revenues.

The Statement of Operating Expenses provides more detail on the operating expenses from the previous table. The expenses include the functional classifications of all funds.

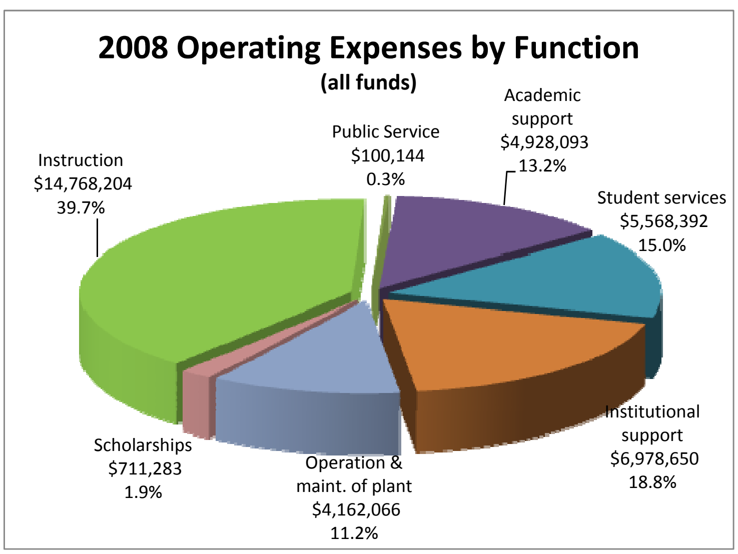
OPERATING EXPENSES

	Years Ended June 30, 2008	2007	Percent Change
OPERATING EXPENSES			
Instruction	$ 14,768,204	$ 14,284,731	3.4%
Public Service	100,144	-	-
Academic support	4,928,093	5,054,846	-2.5%
Student services	5,568,392	5,072,240	9.8%
Institutional support	6,978,650	6,364,650	9.6%
Operations and maintenance of plant	4,162,066	3,538,901	17.6%
Scholarships	711,283	715,630	-0.6%
Sub-Total	37,216,832	35,030,998	6.2%
Auxiliary enterprises	3,741,623	3,603,184	3.8%
Certain fringe benefits paid directly by the State of Maryland	1,633,395	1,309,301	24.8%
Other operating expenses	13,022	305,065	-95.7%
Depreciation	2,714,707	2,571,085	5.6%
TOTAL	$ 45,319,579	$ 42,819,633	5.8%

Instruction accounts for 32.6% of total College operating expense. This figure does not include the state payment for retirement benefit associated with instruction. Instructional costs increased due to an increase in salaries for employees and an increase in positions, including adjunct faculty, to address increased enrollment demands.

Student Services expenses increased over the prior year reflecting changes in salaries and benefits, contracted services, and equipment and technology. Additionally, Operation and Maintenance of Plant expenses increased as salaries and benefits and contracted services increased.

Other major components of operating expenses include: the $1,633,395 that represents the State's contribution for College employees to the Maryland State Retirement System and the recognition of $2,714,707 in depreciation on capital assets.



Statement of Cash Flows

The statement of cash flows presents detailed information about cash receipts and cash payments of the College. This statement helps users assess the College’s ability to generate future cash flows, the ability to meet obligations as they come due, and its needs for external financing.

The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used for the operating activities of the College. The second section reflects the cash received and spent for non-operating, non-investing and other non-capital financing purposes. The third section deals with cash flows from capital and related financing activities, providing information on the cash used for the acquisition and construction of capital and related items. The fourth part reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from such activities. The fifth section reconciles the net cash used for operating activities to the operating income or loss reflected on the statement of revenues, expenses and changes in net assets.

CASH FLOWS

	Years Ended June 30, 2008	2007	Percent Change
Cash Provided By (Used In):			
Operating activities	$ (25,216,011)	$ (23,938,009)	5.3%
Noncapital financing activities	30,488,549	27,840,351	9.5%
Capital and related financing activities	(2,801,042)	(781,211)	258.6%
Investing activities	788,179	1,025,661	-23.2%
Net increase in cash	3,259,675	4,146,792	-21.4%
CASH, BEGINNING OF YEAR	20,809,614	16,662,822	24.9%
CASH, END OF YEAR	$ 24,069,289	$ 20,809,614	15.7%

The primary cash receipts from operating activities consist of tuition and fees of $10,339,242 and auxiliary enterprises of $4,298,920. Major cash outlays in operating activities consist of salaries and benefits of $26,704,342 and payments to suppliers of $13,828,432.

Federal, state and local funding is the primary source of non-capital financing. The accounting standards require that the College reflect this source of revenue as non-operating even though the College’s budget depends on this funding to continue, or expand, the existing level of operations.

The main financing activities included within the report are associated with capital appropriations for the College’s commitment to the continued renovation of its older facilities paired with technology enhancements such as the new telephone system and the Luminous portal. Net cash used in capital financing activities increased from $781,211 in FY 2007 to $2,801,042 in FY 2008. These numbers indicate that the College has made appropriate outlay for capital purchases with the understanding that reimbursement by the State and County will follow in the subsequent fiscal year. The Aberdeen Hall renovation project is responsible for the majority of the outlay.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2008, the College had $77.2 million invested in capital assets, including $6.1 million in construction in progress, less accumulated depreciation of $21.5 million. Depreciation charges for the current year totaled $2.7 million.

CAPITAL ASSETS, NET

	June 30, 2008	June 30, 2007	Percent Change
CAPITAL ASSETS			
Land and land improvements	$ 9,848,555	$ 8,996,002	9.5%
Buildings	51,644,439	51,573,006	0.1%
Furniture and equipment	4,249,529	4,159,559	2.2%
Computer technology	4,592,360	3,724,019	23.3%
Vehicles	431,482	362,281	19.1%
Library books	251,046	163,989	53.1%
Construction in progress	6,143,977	1,068,869	474.8%
Total	77,161,388	70,047,725	10.2%
Less accumulated depreciation	21,473,870	18,799,974	14.2%
NET CAPITAL ASSETS	$ 55,687,518	$ 51,247,751	8.7%

The major portion of the capital asset additions for FY 2008 consists of the renovation costs for Aberdeen Hall, along with parking lot improvements, a new telephone system and the Luminous portal.

Debt

The College has no long-term debt as of June 30, 2008.

Economic Factors That Will Affect the Future

The economic position of the College is tied to the overall economy. The flow of projected state and county revenues has slowed below original estimates. Given the projected shortfall in the FY 2009 state operating budget, there is potential for a reduction in state funding during FY 2009. The College has positioned itself to manage such a reduction with vacancy and turnover savings in salaries. For FY 2010, the initial funding projections provided by the Maryland Higher Education Commission reflect a continuation of the increase in the CADE Funding Formula multiplier coupled with the College's enrollment growth upon which the formula is calculated.

Initial budget development assumptions by the College project that the CADE formula will be reduced. This will produce a smaller increase in total state funding in FY2010. Given the present financial market crisis, coupled with housing value reductions which affect state and county revenues, along with the increases in energy costs, estimates for county funding in FY 2010 have been reduced. The College is also following the issue of shifting the cost of the state retirement benefit to the local government which would ultimately be shifted to the College.

The College is optimistic that there will be an increase in tuition and fees revenue, as dictated by student enrollment. An increase in student tuition and fees in the future fiscal year is under consideration. Initial analysis suggests that enrollment will increase slightly, estimated at 2%, for FY2010. Generally during economic slowdowns, enrollments in higher education institutions increase.

Expenditures can be expected to increase due to enrollment growth, salary and benefit increases, utilities, software and hardware, and supplies. The inflationary costs associated with providing similar levels of service are expected to increase at least 5% on average. As the College continues to plan and provide for future growth, the structural deficit of the State and its consequences on future funding of community colleges may require more austere budgeting and an examination of other funding options including increased use of auxiliary funds for operations and the possibility of a tuition and fee increase.

The College is very aware of the implications of the Base Realignment and Closure (BRAC) on enrollment. Projections indicate a growth in related employment of 19,237 jobs along with 7,059 households supporting 19,059 new residents generating 4,624 new public school children by 2017 (Sage Policy Group, 2007, p. 28). The growth in households, county employment, and high school students will translate into an increased community of learners that will access their community college.

Harford Community College

Statement of Net Assets
June 30, 2008

	Harford Community College	Component Unit Harford Community College Foundation
Assets		
Current Assets		
Cash and cash equivalents	$ 20,728,244	$ 806,166
Accounts receivable, net	2,867,372	-
Promises to give, net	-	175,809
Inventories	475,287	-
Prepaid expenses and other assets	271,521	22,842
Due from Foundation	37,202	-
Deposit with trustee	1,372,857	-
Total current assets	25,752,483	1,004,817
Noncurrent assets		
Cash and cash equivalents, capital projects	3,341,045	-
Investments	-	4,894,315
Land and construction in progress	8,060,476	-
Other capital assets	69,100,912	-
Less accumulated depreciation	(21,473,870)	-
Total noncurrent assets	59,028,563	4,894,315
Total assets	84,781,046	5,899,132
Liabilities		
Current Liabilities		
Accounts payable	2,053,515	4,200
Accrued liabilities	627,227	-
Deposits held for students	364,209	-
Deferred revenue	1,637,958	30,800
Due to College	-	37,202
Other liabilities	279,908	-
Total current liabilities	4,962,817	72,202
Noncurrent Liabilities		
Compensated absences	817,628	-
Total liabilities	5,780,445	72,202
Net Assets		
Unrestricted	18,703,859	223,154
Investment in capital assets, net of related debt	55,687,518	-
Restricted:		
Expendable	4,609,224	2,880,750
Nonexpendable	-	2,723,026
Total net assets	$ 79,000,601	$ 5,826,930

See Notes to Financial Statements.

Harford Community College

Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2008

	Harford Community College	Component Unit Harford Community College Foundation
Operating revenues		
Student tuition and fees (net of scholarship allowances of $2,862,851 in 2008)	$ 10,560,383	$ -
Gifts and contributions	-	413,271
Auxiliary enterprises	4,283,503	-
Other operating revenues	678,601	501
Total operating revenues	15,522,487	413,772
Operating expenses		
Instruction	14,768,204	-
Public Service	100,144	-
Academic support	4,928,093	-
Student services	5,568,392	-
Institutional support	6,978,650	-
Operations and maintenance of plant	4,162,066	-
Scholarship expense	711,283	-
Certain fringe benefits paid directly by the State of Maryland	1,633,395	-
Other operating expenses	13,022	116,964
Depreciation	2,714,707	-
Auxiliary enterprises	3,741,623	-
Total operating expenses	45,319,579	116,964
Operating (loss) income	(29,797,092)	296,808
Non-operating revenues (expenses)		
Certain fringe benefits paid directly by the State of Maryland	1,633,395	-
Federal grants and contracts	2,495,207	-
State of MD grants and contracts	10,993,159	-
Harford County grants and contracts	16,392,564	-
Contributions from individuals and organizations	102,079	-
Contributions from HCC Foundation	476,063	(476,063)
Investment income (loss)	788,179	(358,764)
Net non-operating revenues	32,880,646	(834,827)
Income (loss) before other revenues	3,083,554	(538,019)
Harford County capital grants	5,469,126	-
Contributions for permanent endowments	-	50,953
Increase (decrease) in net assets	8,552,680	(487,066)
Net assets, beginning of year	70,447,921	6,313,996
Net assets, end of year	$ 79,000,601	$ 5,826,930

See Notes to Financial Statements.

Harford Community College

Statement of Cash Flows
Year Ended June 30, 2008

	Harford Community College	Component Unit Harford Community College Foundation
Cash Flows from Operating Activities		
Tuition and fees	$ 10,339,242	$ -
Contributions	-	395,876
Interest and dividends received	-	308,105
Payments to suppliers	(13,851,449)	(566,212)
Payments to employees	(26,681,325)	-
Auxiliary enterprise charges	4,298,920	-
Other receipts	678,601	501
Net cash provided by (used in) operating activities	(25,216,011)	138,270
Cash Flows from Noncapital Financing Activities		
Federal Student Loan Programs receipts	344,267	-
Federal Student Loan Programs disbursements	(344,267)	-
Federal grants and appropriations	2,414,148	-
State grants and appropriations	11,142,624	-
County grants and appropriations	16,477,183	-
Private grants and contributions	454,594	106,080
Net cash provided by noncapital financing activities	30,488,549	106,080
Cash Flows from Capital and Related Financing Activities		
Capital grants received	4,353,432	-
Proceeds from sale of capital assets	24,153	-
Purchase of capital assets	(7,178,627)	-
Net cash used in capital and related financing activities	(2,801,042)	-
Cash Flows from Investing Activities		
Investment income	788,179	-
Purchases of marketable securities	-	(1,471,609)
Proceeds from sale of marketable securities	-	1,207,421
Net repayments of loans receivable	-	1,051
Net cash provided by (used in) investing activities	788,179	(263,137)
Net increase (decrease) in cash and cash equivalents	3,259,675	(18,787)
Cash and cash equivalents, beginning of year	20,809,614	824,953
Cash and cash equivalents, end of year	$ 24,069,289	$ 806,166
Cash and cash equivalents - current	$ 20,728,244	$ 806,166
Cash and cash equivalents - capital projects	3,341,045	-
	$ 24,069,289	$ 806,166

(Continued)

Harford Community College

Statement of Cash Flows (Continued)
Year Ended June 30, 2008

	Harford Community College	Component Unit Harford Community College Foundation
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	$ (29,797,092)	$ -
Change in net assets	-	(487,066)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation expense	2,714,707	-
Certain fringe benefits paid directly by the State of Maryland	1,633,395	-
Allowance and discount on receivables and promises to give	-	(5,643)
Donated securities	-	(21,041)
Realized and unrealized (gains) loss on securities	-	666,869
Contributions for permanent endowments	-	(50,953)
Changes in assets and liabilities:		
Accounts receivable	(414,412)	8,974
Inventories	(86,453)	-
Prepaid expenses	(123,780)	(2,182)
Due to/from Foundation/College	(22,494)	22,494
Accounts payable	594,798	1,200
Accrued salaries	87,182	-
Accrued compensated absences	22,550	-
Other accrued liabilities	(33,100)	-
Deferred revenue	121,186	5,618
Deposits held in custody for others	87,502	-
Net cash provided by (used in) operating activities	$ (25,216,011)	$ 138,270

See Notes to Financial Statements.

Note 1. Financial Reporting Entity and Summary of Significant Accounting Policies

Financial Reporting Entity: Harford Community College (the "College") is considered a "body politic" under Maryland State law as an instrumentality of the State of Maryland (the "State"). The College is governed by a nine-member Board of Trustees, who are appointed for five-year terms by the Governor of the State.

Funding is received from both the State and Harford County (the County). The State portion is based on a formula established by statute, which includes a portion of funds based upon full-time equivalent students as reported two years earlier.

Although the College is not an agency of the County, as a result of the College's relationship with the County, the College's financial statements are considered component unit financial statements and are included in the Comprehensive Annual Financial Report of the County in accordance with generally accepted accounting principles.

The Harford Community College Foundation, Inc. (the Foundation) is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation is governed by a Board of Directors. Although the College does not control the timing of receipts from the Foundation, all of the resources, or income thereon, which the Foundation holds and invests, is 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. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, the Harford Community College Foundation, Inc. is presented in a discrete format.

The Foundation is a private nonprofit organization that follows the recommendations of the Financial Accounting Standards Board (FASB), including Statement of Financial Accounting Standards (SFAS) Number 117, *Financial Statements of Not-for-Profit Organizations*. 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.

A summary of the College's and Foundation's significant accounting policies follows:

Basis of Preparation: The College presents its financial statements in accordance with GASB Statements No. 34, *Basic Financial Statements and Management Discussion Analysis for State and Local Governments* and No. 35, *Basic Financial Statements and Management Discussion Analysis for Public Colleges and Universities*. The financial statement presentation provides a comprehensive one-line look at the total entity and requires capitalization of assets and recording of depreciation. GASB Statement No. 34 identified three types of special purpose governments (SPG): (1) those engaged only in governmental activities; (2) those engaged only in business-type activities (BTA); and (3) those engaged in both governmental and business-type activities. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services. Given the importance of tuition, fees and other exchange-type transactions in financing higher education, the College adopted the financial reporting model required of SPG's engaged in business-type activities. The BTA model requires the following in component unit financial statements:

- Management's discussion and analysis
- Statement of net assets
- Statement of revenues, expenses and changes in net assets
- Statement of cash flows
- Notes to the financial statements

Note 1. Financial Reporting Entity and Summary of Significant Accounting Policies (Continued)

Basis of Preparation (Continued): The College's component unit financial statements are prepared using the format of an SPG engaged only in business-type activities, with an economic resources measurement focus, under the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when incurred (when there is a legal contractual obligation to pay). The statements are intended to report the public institution as an economic unit that includes all measurable assets and liabilities, financial and capital, of the institution.

The statement of revenues, expenses and changes in net assets for SPG's engaged in business-type activities requires an operating/non-operating format to be used. The College has elected to report its operating expenses by functional classification. The statement of cash flows is presented using the direct method, which depicts cash flows from operating activities and a reconciliation of operating cash flows to operating income. The Foundation has elected to present its cash flows using the indirect method. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

Colleges engaged in business-type activities and reporting as BTA's follow GASB standards applicable to proprietary (enterprise) funds. GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended by GASB Statement No. 29, *The Use of Not-For-Profit Accounting and Financial Reporting Principles by Government Entities,* permits such entities to apply all FASB Statements and Interpretations issued after November 30, 1989, that are developed for business enterprises except for those that conflict with or contradict GASB pronouncements. The College has elected not to implement FASB pronouncements issued after that date for any proprietary fund activity.

One of the primary purposes of financial reporting is to account for resources received and used, as well as accounted for and reported. In certain situations, both restricted and unrestricted net assets may be available to cover an expense incurred. In those few cases, as long as the expense meets all of the requirements of the restricted net assets, restricted resources would be applied first.

Operating and Non-Operating Components: Financial statement operating components include all transactions and other events that are not defined as capital and related financing, non-capital financing or investing activities. The College's principal ongoing operations determine operating flow activities. Ongoing operations of the College include, but are not limited to, providing intellectual, cultural and social services through two-year associate degree programs, continuing education programs and continuous learning programs. Operating revenues of the College primarily consist of tuition and fees, grants and contracts, and auxiliary enterprise revenues.

Financial statement non-operating components include transactions and other events that are defined as non-capital financing activities, capital financing activities, and investing activities. Non-capital financing activities include borrowing money for purposes other than to acquire, construct or improve capital assets and repaying those amounts borrowed, including interest. Also included are certain inter-fund and intergovernmental receipts and payments such as state appropriations, Federal Family Education loans, and student organization transactions. Capital financing activities include [a] acquiring and disposing of capital assets used in providing services or producing goods; [b] borrowing money for acquiring, constructing or improving capital assets and repaying the amounts borrowed, including interest; and [c] paying for capital assets obtained from vendors on credit. Investing activities includes acquiring and disposing of debt or equity instruments.

Cash and Cash Equivalents: Cash and cash equivalents include debt instruments with a maturity at acquisition of three months or less and funds invested in the Maryland Local Government Investment Pool (MLGIP), which provides local governmental units of the State an investment vehicle for the short-term investment of funds. The College considers this investment to be a cash equivalent.

Note 1. Financial Reporting Entity and Summary of Significant Accounting Policies (Continued)

Accounts Receivable: The College has accounts receivable related to tuition and fees and other grant and contractual relationships. Tuition receivables are obligations of students resulting from course registrations. The obligation is due before the end of the semester for which it was incurred. Amounts that remain uncollected as of the end of the semester are considered delinquent and may be referred to a collection agency. A valuation allowance of 100% is established for all accounts referred to a collection agency. The allowance for doubtful accounts was $324,772 and $17,966 for the fiscal year 2008 for the College and Foundation.

The College's tuition and fee revenue is reported net of any scholarship allowance. A scholarship allowance is defined as the difference between the stated charges for tuition, goods and services provided by the College, and the amount that is paid by the student and/or third parties making payments on behalf of the student. The scholarship allowance represents the amount of dollars the College receives as tuition from outside resources such as the Title IV Federal Grant Program, restricted grants and the College's own Board of Trustees grants. Funds received for tuition costs from outside resources are reported in the appropriate revenue classification. Certain aid such as loans and third party payments are credited to the student's account as if the student made the payment. The College netted student aid expense against tuition revenue in the amount of $2,862,851 for fiscal year 2008.

Promises to Give: Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions received are recorded as unrestricted, temporarily restricted (expendable), or permanently restricted (nonexpendable) support depending on the existence and/or nature of any donor restrictions. Support that is restricted (expendable) by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily (expendable) or permanently restricted (nonexpendable) net assets. When a restriction expires, temporarily restricted (expendable) net assets are reclassified to unrestricted net assets.

In accordance with FASB Statement No. 116, promises to give to be received in a future period are discounted to their net present value at the time the revenue is recorded. The Foundation's promises to give are discounted at a rate of 3%.

The Foundation uses the specific identification method to determine uncollectible promises to give. As of June 30, 2008, management determined there were no uncollectible promises to give.

Investments: College and Foundation investments are carried at fair value. The College's investments in the MLGIP and are reported at cost, which approximates fair value. Fair value is the quoted market price of the investment or the net asset value for mutual funds. The change in unrealized appreciation or depreciation of the Foundation's marketable securities for the year is reflected in the statement of revenue, expenses and changes in net assets. Realized gains and losses on sales of investments are computed on a specific identification basis and are recorded on the settlement date of the transaction.

The Foundation invests in a professionally managed portfolio of mutual funds and money market funds. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Note 1. Financial Reporting Entity and Summary of Significant Accounting Policies (Continued)

Inventories: Inventories are stated at the lower of cost or market and consist primarily of items held for sale in the bookstore and consumable supplies. The cost of these items is recorded as an expense at the time they are relieved from inventory for use. Inventories are determined by actual count and priced on the first-in, first-out basis.

Capital Assets: Capital assets are recorded at cost or fair value at the date of donation in the case of gifts. The College's policy is to include only those capital assets with a purchase price or fair value at donation of at least $2,500. The entire library collection is recorded and valued at cost or estimated cost. Additions constructed via funds from State or County governmental agencies are stated at the cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Depreciation is provided over the estimated economic life of the item on a straight line basis, as follows:

Category	Years
Buildings	45
Computer technology	5
Library books	3
Furniture and equipment	5 - 20
Land improvements	7 - 50
Vehicles	7

Encumbrances: The College maintains an encumbrance system for tracking outstanding purchase orders and other commitments for materials or services not received during the year. Encumbrances at year-end represent the estimated amount of expenses ultimately to result if unperformed contracts in process are completed. It primarily consists of encumbrances related to capital project spending. Encumbrances outstanding do not constitute expenses or liabilities and are not reflected in these component unit financial statements. Encumbrances at June 30, 2008 was $734,104.

Compensated Absences: It is the College's policy to allow employees to carry over unused annual and sick leave to a maximum of 10 annual leave days. Sick leave days are not paid out at termination except in the case of retirement where a maximum of 180 days can be paid out. Therefore, a liability in the amount of $817,628 at June 30, 2008 has been recorded to reflect earned but unused annual and sick leave at June 30, 2008. This is an increase of $22,550 from the liability of $795,078 as of June 30, 2007.

Deferred Revenue: Tuition and fees are recognized in the academic period that they are earned. Amounts received for future semesters are deferred until earned in the related academic period. Tuition received for the summer semester is recognized equally over two periods as half the semester relates to the current fiscal year and half of the semester occurs during the next fiscal year. The Foundation's deferred revenue represents amounts received for fundraising events held subsequent to fiscal year-end.

Net Assets: 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 – Expendable: Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Note 1. Financial Reporting Entity and Summary of Significant Accounting Policies (Continued)

Net Assets (Continued):

Restricted Net Assets – Nonexpendable: Nonexpendable restricted net assets include resources for which the donor has stipulated, as a condition of the gift instrument, that the principal is to be maintained in perpetuity and invested for the purpose of producing present and future income.

Unrestricted Net Assets: Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

County Appropriations: County appropriations are provided to the College to fund general operations and certain construction projects.

Other Postemployment Benefits: The College adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of July 1, 2007. This statement requires governments to recognize an expense under the accrual basis for annual required other postemployment benefits contributions, regardless of amounts paid. The cumulative difference between amounts expensed and paid creates a liability (asset) similar to net pension obligations.

Income Tax Status: The College is exempt from federal and state income taxes as it is essentially a political subdivision of the State. The Foundation is exempt from taxation pursuant to Internal Revenue Code Section 501 (c) (3).

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 disclosures of contingent assets and liabilities at the date of the component unit financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2. Cash and Cash Equivalents

State statutes authorized the College to invest in obligations of the United States Government, federal government agency obligations, secured time deposits in Maryland banks, bankers' acceptances, the Maryland Government Investment Pool (MLGIP), money market mutual funds, commercial paper and repurchase agreements secured by direct government or agency obligations.

The College is a participant of the MLGIP. The MLGIP was created under Maryland State Law and is regulated by the Maryland State Treasurer's Office. It is maintained exclusively to assist eligible participants, as defined in Articles 95 and 22 of the Annotated Code of Maryland. The MLGIP may invest in any instrument in which the State Treasurer may invest. Permissible instruments are established by Section 6-222 of the State Finance and Procurement Article. No direct investment may have a maturity date of more than 13 months after its acquisition. Securities of the MLGIP are valued daily on an amortized cost basis, which approximates market value, and are held to maturity under normal circumstances.

Note 2. Cash and Cash Equivalents (Continued)

The fair value of the position in the MLGIP is the same as the value of the MLGIP net assets (shares). The MLGIP is a 2a-7 like external investment pool, which issues a publicly available financial report that includes financial statements and required supplementary information for the MLGIP. This report can be obtained by writing: PNC Institutional Investments; Maryland Local Government Investment Pool; 2 Hopkins Plaza, 4th Floor, Baltimore, Maryland, 21201.

At June 30, 2008, the carrying amount of the College deposits, including petty cash of $11,681, was $2,438,208 and the bank balance was $3,084,793.

At June 30, 2008, the College had $16,631,081 invested in MLGIP. At June 30, 2008, the College had $5,000,000 invested in an overnight repurchase agreement with M&T Bank.

Custodial Credit Risk – Deposits: Custodial credit risk for deposits is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The College's deposit policy for custodial credit risk is to have uninsured deposits collateralized. As of June 30, 2008, $2,984,793 of the College's bank balances of $3,084,793 was exposed to custodial credit risk as follows:

Uninsured, collateral held by Federal Reserve Boston in College's name	$ 2,989,793

Interest Rate Risk – Investments: The fair value of the investment in MLGIP may fluctuate with interest rates, and increasing interest rates could cause fair value to decline below original cost. To limit the College's exposure to fair value losses arising from increasing interest rates, the College's investment policy limits the term of investment maturities. College management believes the liquidity in the portfolio is adequate to meet cash flows requirements and to preclude the College from having to sell investments below original cost for that purpose. At June 30, 2008, the MLGIP funds had a weighted average maturity of 38 days. Overnight repurchase agreements are liquidated the next day.

Credit Risk – Investments: College investment policy does not permit investments in commercial paper or corporate bonds, except as permitted under state law in the state investment pool. The College invests in the MLGIP which is under the administration of the State Treasurer. The MLGIP is rated AAA by Standard & Poors. The MLGIP seeks to maintain a constant value of $1.00 per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, marked to market, is calculated and maintained on a weekly basis to ensure a $1.00 per unit constant value. At June 30, 2008, the College's investment in repurchase agreement was not rated.

Custodial Credit Risk – Investments: For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the College will not be able to recover all or a portion of the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2008, the College's investments in the MLGIP are not subjected to custodial credit risk. The College's investment in repurchase agreement is secured by Federal agency obligations held by the bank in the College's name.

Foreign Currency Risk – Investments: The College's investment policy does not allow for investments in investments denominated in foreign currencies

Note 3. Harford Community College Foundation, Inc. – Investments

Investments of the Foundation are presented in the financial statements at fair value and consist of the following as of June 30, 2008:

	Fair Value	Cost
Cash equivalents	$ 75,285	$ 75,286
Fixed income funds	1,066,660	1,052,667
Equity funds	3,752,370	3,934,009
Total	$ 4,894,315	$ 5,061,962

Investment income consists of interest and dividends of $308,107, net of fees, and realized and unrealized losses of $666,871 for the year ended June 30, 2008.

Note 4. Harford Community College Foundation, Inc. – Promises to Give

Promises to give consist of the following at June 30, 2008:

Promises to give	$ 182,178
Discount	(6,369)
	$ 175,809
Amounts due in:	
Less than one year	$ 130,345
One to five years	51,833
	$ 182,178

Note 5. Receivables and Payables

Receivables and payables consist of the following at June 30, 2008:

Accounts receivable:	
Federal Government	$ 270,512
State of Maryland	99,233
Harford County, Maryland	1,538,205
Student receivables and other	959,422
	$ 2,867,372
Accounts payable: vendors	$ 2,053,515
Accrued liabilities:	
Payroll and payroll taxes	$ 627,227
Compensated absences	817,628
	$ 1,444,855

Note 6. Capital Assets and Related Accumulated Depreciation

The following is a summary of capital asset activity for the year ended June 30, 2008:

	Balance June 30, 2007	Addition	Retirement	Transfer	Balance June 30, 2008
Capital assets not being depreciated:					
Land	$ 1,474,009	$ 442,490	$ -	$ -	$ 1,916,499
Construction in progress	1,068,869	5,337,269	-	(262,161)	6,143,977
Total capital assets not being depreciated	2,542,878	5,779,759	-	(262,161)	8,060,476
Capital assets being depreciated:					
Land improvements	7,521,993	251,252	-	158,811	7,932,056
Buildings	51,573,006	71,433	-	-	51,644,439
Furniture and equipment	4,159,559	93,770	(3,800)	-	4,249,529
Computer technology	3,724,019	798,683	(33,692)	103,350	4,592,360
Vehicles	362,281	69,201	-	-	431,482
Library books	163,989	114,529	(27,472)	-	251,046
Total capital assets being depreciated	67,504,847	1,398,868	(64,964)	262,161	69,100,912
Less accumulated depreciation for:					
Land improvements	2,489,821	232,421	-	-	2,722,242
Buildings	10,542,476	1,780,483	-	-	12,322,959
Furniture and equipment	2,584,759	271,595	(3,230)	-	2,853,124
Computer technology	2,987,181	306,810	(10,108)	-	3,283,883
Vehicles	195,737	39,716	-	-	235,453
Library books	-	83,682	(27,473)	-	56,209
Total accumulated depreciation	18,799,974	2,714,707	(40,811)	-	21,473,870
Total capital assets being depreciated, net	48,704,873	(1,315,839)	(24,153)	262,161	47,627,042
Total capital assets, net	$ 51,247,751	$ 4,463,920	$ (24,153)	$ -	$ 55,687,518

Note 7. Operating Leases

The College has entered into lease agreements for office equipment that are accounted for as operating leases. Minimum lease payments under these agreements as of June 30, 2008 are as follows:

Years Ending June 30,	
2009	$ 270,864
2010	270,864
2011	225,720
	$ 767,448

Total rent expense for the years ended June 30, 2008 was $264,731.

Note 8. Retirement Plans

The employees of the College are covered by one of the following defined benefit pension plans affiliated with the State Retirement and Pension System of Maryland, a cost-sharing multiple-employer defined benefit public employee retirement system administered by the State Retirement Agency:

- The Teachers' Retirement System of the State of Maryland,
- The Pension System for Teachers of the State of Maryland,
- The Employees' Retirement System of the State of Maryland.

During the 1979 legislative session, the Maryland General Assembly created, effective January 1, 1980, The Pension System for Teachers of the State of Maryland ("Pension System for Teachers of the State of Maryland") and the "Pension System for Employees of the State of Maryland". Prior to this date, all teachers and related positions were required to be members of The Teachers' Retirement System of the State of Maryland ("Teachers' Retirement System of the State of Maryland"), and non-certified positions were members of The Employees' Retirement System of the State of Maryland ("Employees' Retirement System of the State of Maryland"), under plans created earlier by the State of Maryland. All College employees who were members of the "Retirement System" at January 1, 1980 could remain in that System, or elect to join the "Pension System". All teachers hired within the State after December 31, 1979 must join the "Pension System for Teachers". All non-certificated employees hired within the State after December 31, 1979 must join the "Pension System for Employees". The "Employees' Retirement System" cover those employees not covered by the teachers' plans. The State of Maryland is able to modify these plans. The plans are classified as cost-sharing multiple-employer plans.

These pension plans provide pension benefits and death and disability benefits. A member may retire after 25 years of service from the Retirement System, and as early as age 55 and 15 years of service from the Pension System. Benefits generally vest after 5 years of service. The State Retirement Agency issues a publicly available financial report that includes the basic financial statements and required supplementary information for the State System. The report may be obtained by writing to the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, MD 21202, or by calling 410-625-5555.

Funding Policy: Both the "Retirement System" and the "Pension System" for teachers and non-certificated employees are jointly contributory. Under the "Retirement System" employees contribute 5%-7% of their total gross salary and under the "Pension System" employees contribute 2% of their gross salary. Effective, July 1, 1980, in accordance with the law governing the Systems, all benefits of the Systems are funded in advance. Annually appropriated employer contribution rates for retirement benefits are determined using the entry age normal cost method. The method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability.

Annual Pension Cost: College contributions totaling $49,780 and contributions by the State of Maryland on behalf of the College totaling $1,633,395, or 9.71% of covered payroll for fiscal year 2008, were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2007.

A three year trend of the College's annual pension cost is as follows:

Fiscal Year Ended June 30,	Total Annual Pension Cost (APC)	APC Contributed by College	APC Contributed by State	Percentage of APC Contributed	Net Pension Obligation
2006	$ 1,259,331	$ 38,715	$ 1,220,616	100.00%	-
2007	1,352,142	42,841	1,309,301	100.00%	-
2008	1,683,175	49,780	1,633,395	100.00%	-

Note 8. Retirement Plans (Continued)

Annual Pension Cost (Continued): The contributions made by the State of Maryland on behalf of the College were recognized as both revenue and expenses as required by GASB Statement No. 24.

Note 9. Postemployment Benefits Other Than Pensions

Plan Description: The College sponsors postemployment medical benefits under a single employer defined benefit plan. Any full-time employee of Harford Community College is eligible to participate in the plan. The College allows access to the plan if the retiree: a) retires or becomes disabled with an immediate benefit from the State Retirement and Pension System of Maryland, b) has medical coverage prior to retirement/disability, and c) has at least 15 years of employment service. Disabled participants must reach retirement eligibility. Dependents and surviving spouses of participants are allowed access to the plan but must also pay the full premium. A closed group of retirees receives an annual subsidy of $4,800 as part of a retirement window benefit program. The Plan does not issue a stand-alone financial report.

As of June 30, 2008, there were eight eligible and participating retirees.

Funding Policy: The College is funding on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation: The College's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the College's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the College's net OPEB obligation.

Annual required contribution	$ 64,470
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	64,470
Contributions made	(41,453)
Increase in net OPEB obligation	23,017
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	$ 23,017

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2008 (transition year) were as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	$64,470	64.3%	$23,017

Note 9. Postemployment Benefits Other Than Pensions (Continued)

Funding Status and Funding Progress: As of December 31, 2007, the most recent actuarial valuation date, the unfunded actuarial accrued liability (UAAL) was $905,610. The covered payroll (annual payroll of active employees covered by the plan) was $15,076,279, and the ratio of the UAAL to the covered payroll was 6.0 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2007 actuarial valuation, the Projected Unit Credit method, with linear pro-ration to assumed benefit commencement, was used. The actuarial assumption includes a 4.0 percent investment rate of return based upon the continuation of funding on a pay-as-you-go basis and that general fund investments can earn 4.0% over the long term. The UAAL is being amortized over 30 years using a 30-year amortization as a level dollar amount. The remaining amortization period at December 31, 2007 was 30 years.

Note 10. Risk Management

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; employee health and accident; and natural disasters. The College purchases commercial insurance to protect its interest in its property and equipment; insurance against employee dishonesty and liability protection. The College is a member of the Harford County Health Care Consortium. Health benefits are administered through Carefirst Blue Cross Blue Shield. The Consortium was formed for the purpose of pulling resources to purchase health insurance thereby reducing administrative expenses and expanding the provider network. At June 30, 2008, the College had amounts on deposit with the trustee of the Consortium totaling $1,372,857. To the extent that claims and administration costs exceed premiums paid, the College is responsible for the excess but not more than 5% of premiums paid. Any claims in excess of 105% of premiums are covered by additional insurance. An accrual of $169,777 for the self-insured portion is reflected in the statement of net assets as of June 30, 2008.

Note 11. Related Party Transactions

During the year ended June 30, 2008, the Foundation distributed $476,063 to the College for both restricted and unrestricted purposes. The College paid, on behalf of the Foundation, a percentage of various overhead-related expenditures totaling approximately $23,933 for the year ended June 30, 2008.

Complete financial statements for the Foundation can be obtained at 401 Thomas Run Road, Bel Air, Maryland, 21015.

Note 12. Harford Community College – Net Assets

Restricted net assets are restricted for the following purposes as of June 30, 2008:

Capital projects	$ 4,016,375
Scholarships and fellowships	504,826
Loans	88,023
	$ 4,609,224

Note 13. Harford Community College Foundation – Restricted Net Assets

Temporarily restricted net assets consist of the following as of June 30, 2008:

Investments and earnings restricted for:	
Scholarships	$ 2,102,519
Other	135,919
Contributions restricted for:	
Equipment and programs	97,035
Scholarships	401,374
Loan fund	143,903
	$ 2,880,750

Permanently restricted net assets at June 30, 2008 are restricted in perpetuity with income available to support the following purposes:

Scholarships	$ 2,125,509
General purpose	308,421
Specific programs	289,096
	$ 2,723,026

Note 14. Recent Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2008, that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statement of the College.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, will be effective for the College beginning with its year ending June 30, 2009. This Statement requires governments to describe and disclose pollution remediation obligations, estimated liabilities, the methods and assumptions used for the estimate, the potential for changes in estimates, and estimated recoveries that reduce the measurement of the liability.

Note 14. Recent Accounting Pronouncements (Continued)

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, will be effective for the College beginning with its year ending June 30, 2010. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, will be effective for the College beginning with the year ending June 30, 2009. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, will be effective for the College beginning with the year ended June 30, 2010. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments.

Note 15. Commitment

The College has an outstanding commitment totaling approximately $7,000,000 for the renovation costs for Aberdeen Hall. The project will be funded primarily through capital grants from the County and State.

Harford Community College

Other Postemployment Benefits -
Required Supplementary Information

(Unaudited - See Accompanying Independent Auditor's Report)

Schedule of Funding Progress

Actuarial Valuation Date December 31,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
2007	$ -	$905,610	$905,610	0.0%	$15,076,279	6.0%

Actuarial Methods and Assumptions:

Amortization method	Level dollar
Remaining amortization period	30
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	2.5%

Harford Community College

Budgetary Comparison Schedule - General Operating Fund
Year Ended June 30, 2008

	(Unaudited) Budgeted Amounts		Actual	Variance with Adjusted Budget
	Original	Adjusted	(Budgetary Basis)	Favorable (Unfavorable)
Revenues:				
Tuition and fees	$ 11,703,296	$ 11,845,616	$ 13,401,726	$ 1,556,110
State of Maryland	9,708,829	9,708,829	9,562,584	(146,245)
Harford County, MD	15,778,743	15,778,743	15,778,743	-
Investment income	761,221	761,221	788,179	26,958
Other revenue	505,684	505,684	627,164	121,480
Total revenues	38,457,773	38,600,093	40,158,396	1,558,303
Fund balance transfer in	2,600,500	2,600,500	2,600,500	-
Total revenues and transfers	41,058,273	41,200,593	42,758,896	1,558,303
Expenditures:				
Instruction	15,742,879	15,885,199	14,324,973	1,560,226
Academic Support	6,004,522	6,004,522	5,042,622	961,900
Student Services	4,062,001	4,062,001	3,917,961	144,040
Institutional Support	6,776,002	6,776,002	6,535,417	240,585
Operations of Plant	4,442,539	4,442,539	3,942,776	499,763
Scholarships & Fellowships	701,472	701,472	701,282	190
Transfers	3,328,858	3,328,858	3,307,039	21,819
Total expenditures	41,058,273	41,200,593	37,772,070	3,428,523
Excess of revenues over expenditures	$ -	$ -	$ 4,986,826	$ 4,986,826

Harford Community College

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor Program Title	CFDA* Number	Grantor's Number	Grant Expenditures
U.S. Department of Education			
Federal Supplemental Educational Opportunity Grants 08	84.007	-	$ 72,742
Federal Work-Study Program 07	84.033	-	6,104
Federal Work-Study Program 08	84.033	-	135,262
Federal Pell Grant Program 07	84.063	-	(1,198)
Federal Pell Grant Program 08	84.063	-	2,040,699
Federal Family Education Loans Program 08	84.032	-	344,267
Academic Competitiveness Grant 08	84.375	-	42,940
Total U.S. Department of Education			2,640,816
Federal Programs Administered Through the Maryland State Department of Education:			
Voc. Ed. Act - Adult Education Title IIA			
DCTE Spec Pop Program Improvements 08	84.048	600718	17,111
DCTE Spec Pop Program Improvements 08	84.048	700877	156,935
			174,046
Adult Basic Education Act			
Adult Basic Education	84.002	700577	98,543
Total Federal Programs Administered Through the Maryland State Department of Education			272,589
Total Federal Awards Expended			$ 2,913,405

* CFDA - Catalog of Federal Domestic Assistance

See Notes to Schedule of Expenditures of Federal Awards.

Note 1. Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of Harford Community 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 basic financial statements.

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
Harford Community College
Bel Air, Maryland

We have audited the financial statements of the business-type activities and the discretely presented component unit of Harford Community College (the "College") as of and for the year ended June 30, 2008, and have issued our report thereon dated October 9, 2008. Our standard report was modified as to consistency for a change in accounting principle. 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. The financial statements of Harford Community College Foundation, Inc. (component unit) were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

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

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Blue Bell, Pennsylvania
October 9, 2008

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Trustees
Harford Community College
Bel Air, Maryland

Compliance

We have audited the compliance of Harford Community College (the "College") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. The College's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to 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 Government, 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 its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

Internal Control Over Compliance (Continued)

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Blue Bell, Pennsylvania
October 9, 2008

Harford Community College

Summary Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified, modified for an accounting change

Internal control over financial reporting:		
Material weakness(es) identified?	____ Yes	X No
Significant deficiency identified that is not considered to be a material weakness?	____ Yes	X None Reported
Noncompliance material to financial statements noted?	____ Yes	X No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	____ Yes	X No
Significant deficiency identified that is not considered to be a material weakness?	____ Yes	X None Reported

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

Any audit findings disclosed that are required to be reported in accordance with section 501(a) of Circular A-133?	____ Yes	X No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
Various	Student Financial Assistance Cluster

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

Auditee qualified as low-risk auditee?	X Yes	____ No

II. Findings Relating to the Financial Statement Audit as Required to be Reported in Accordance with Government Auditing Standards Generally Accepted in the United States of America

None reported.

III. Findings and Questioned Costs for Federal Awards

None reported.

A. Finding 2007-01

Status: Management has established a policy to require a secondary review of system generated data prior to incorporating the data into the general ledger via a journal entry. In addition, management has contacted its software vendor to determine how the system did not properly account for the prior year journal entry. Management has looked to better understand and refine the process.