McGladrey & Pullen
Certified Public Accountants

Harford Community College

Component Unit Financial Statements
June 30, 2009

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, 2009, 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 Harford Community College Foundation, Inc., 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, 2009, 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.

In accordance with *Government Auditing Standards,* we have also issued our report dated September 3, 2009 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 10 and the post-employment benefit plan schedules 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
September 3, 2009

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, 2009. 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 are 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, 2009, 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 and other post-employment benefits liabilities are considered short-term in nature.

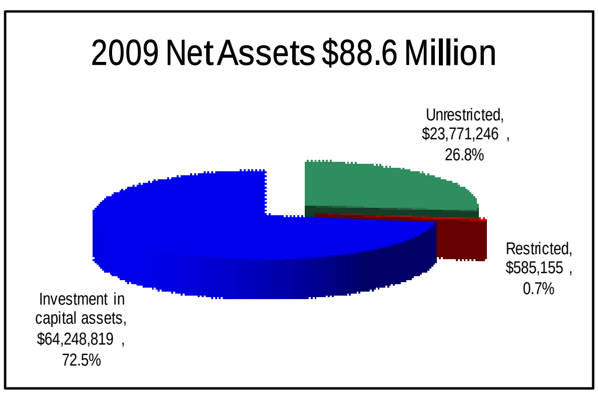
Net assets are divided into four major categories:

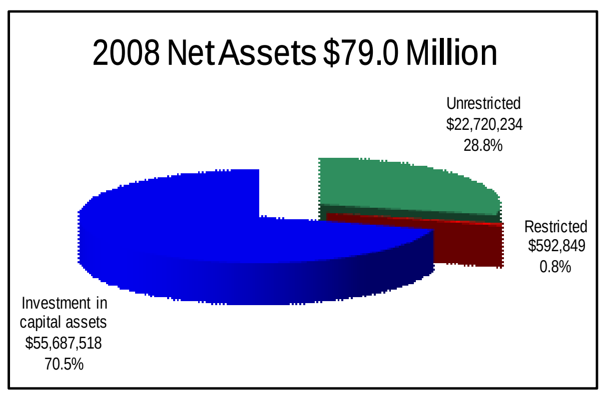
- Unrestricted net assets - available to the College for any lawful purpose.
- Capital assets - the College's ownership equity in property, plant and equipment, net of related debt.
- Expendable restricted net assets - available to be spent by the College after externally imposed stipulations have been 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 STATEMENT OF NET ASSETS

	June 30, 2009	% of Total	June 30, 2008	% of Total
Assets				
Current assets	$ 27,045,939	28.1%	$ 25,752,483	30.4%
Noncurrent assets	69,344,287	71.9%	59,028,563	69.6%
Total assets	96,390,226	100.0%	84,781,046	100.0%
Liabilities				
Current liabilities	6,631,753	85.2%	4,962,817	85.9%
Noncurrent liabilities	1,153,253	14.8%	817,628	14.1%
Total liabilities	7,785,006	100.0%	5,780,445	100.0%
Net Assets				
Investment in capital assets	64,248,819	72.5%	55,687,518	70.5%
Restricted	585,155	0.7%	592,849	0.8%
Unrestricted	23,771,246	26.8%	22,720,234	28.8%
Total net assets	$ 88,605,220	100.0%	$ 79,000,601	100.0%

Fiscal Year 2009 compared to 2008. Net assets increased $9.6 million from $79.0 million in FY 2008 to $88.6 million in 2009. Current assets increased by $1.3 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, a retainage payable, accrued liabilities and deferred revenue, plus deposits held for students who made early payments of FY 2010 tuition and fees. The change in current assets from the prior year reflects an increase in cash provided by additional tuition as well as payments received from the State and County for capital project expenses. The change in current liabilities reflects an increase in the amount due to College suppliers, a retainer fee incurred in the Aberdeen Hall renovation, and an increase in deferred revenue linked to the increase in summer enrollment.





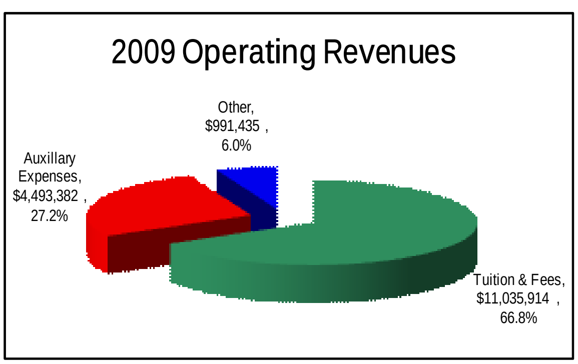
Restricted net assets consist of student loans and Innovative Partners and Technology (IPT) funds provided by the state. The increase in unrestricted net assets reflects the College's continuing efforts of cost containment as well as the reclassification of the College portion of capital project revenue yet to be spent that was reported as restricted in prior years.

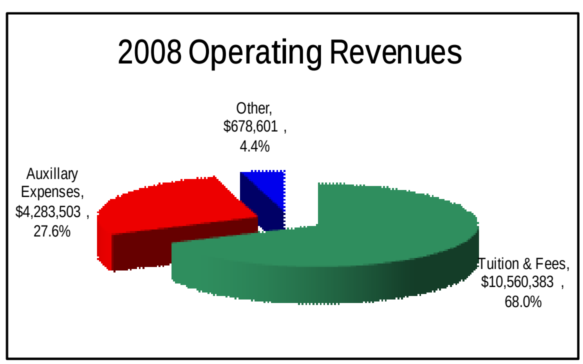
Statement of Revenues, Expenses and Changes in Net Assets

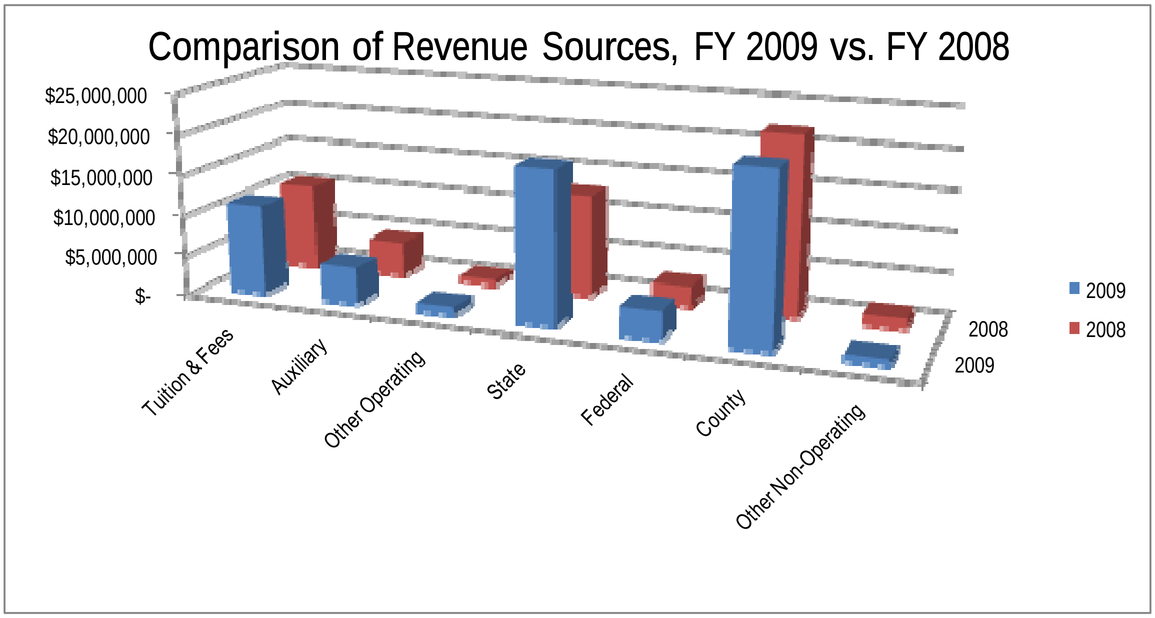
The purpose of this statement is to present the revenues received and expenses paid by the College, both operating and non-operating, as well as any other revenues, expenses, gains and losses received or spent by the institution, over a period of time.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Years Ended June 30, 2009	Years Ended June 30, 2008	Percent Change
OPERATING REVENUE			
Tuition and fees	$ 11,035,914	$ 10,560,383	4.5%
Auxiliary enterprises	4,493,382	4,283,503	4.9%
Other	991,435	678,601	46.1%
Total operating revenue	16,520,731	15,522,487	6.4%
OPERATING EXPENSES	50,344,357	45,319,579	11.1%
Net operating loss	(33,823,626)	(29,797,092)	13.5%
NONOPERATING REVENUES (EXPENSES)			
Certain fringe benefits paid directly by the State of Maryland	1,712,390	1,633,395	4.8%
State grants and contracts	11,870,484	10,993,159	8.0%
Federal grants and contracts	3,328,431	2,495,207	33.4%
Local grants and contracts	16,761,364	16,392,564	2.2%
Contributions	750,798	578,142	29.9%
Interest income	258,912	788,179	-67.2%
Loss on disposal of assets	(217,397)	-	-100.0%
Total nonoperating revenues	34,464,982	32,880,646	4.8%
Income before other revenues	641,356	3,083,554	-79.2%
State capital grants	5,022,534	-	100.0%
Harford County capital grants	3,940,729	5,469,126	-27.9%
INCREASE IN NET ASSETS	9,604,619	8,552,680	12.3%
NET ASSETS, BEGINNING OF YEAR	79,000,601	70,447,921	12.1%
NET ASSETS, END OF YEAR	$ 88,605,220	$ 79,000,601	12.2%

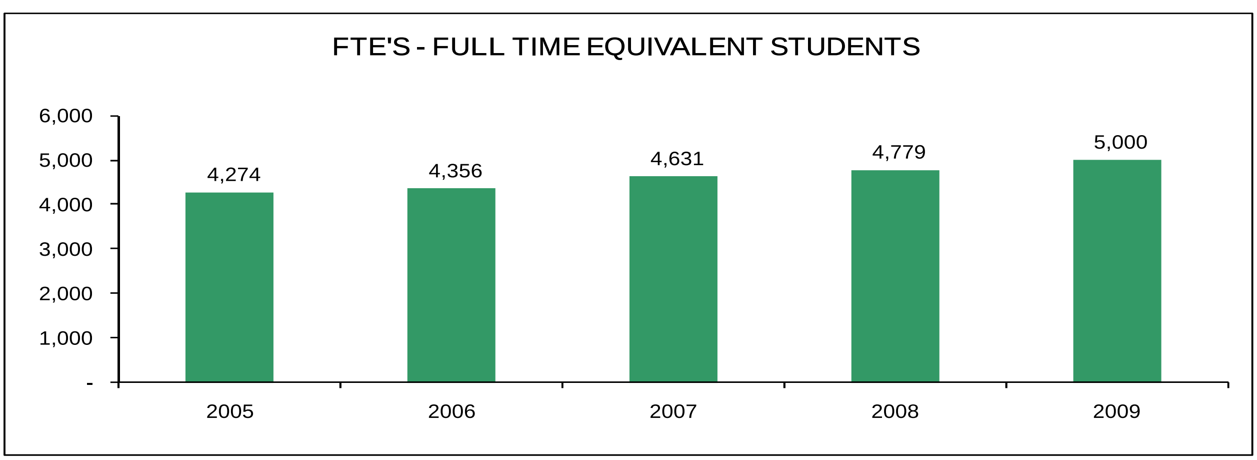






Generally speaking, operating revenues are received for providing goods and services to students and other various constituencies and customers of the College. Operating expenses are paid to acquire or produce the goods and services that are provided in return for operating revenues, thus carrying out 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 2009 compared to 2008. Net assets increased $9.6 million or 12.2% for FY2009. This increase was generated principally through increases in state funding for college operations and capital projects including the direct payment of eligible retirement benefits, local funding from Harford County for college operations and capital projects, 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 5.9% based on the Cade funding formula. This revenue is included in state grants and contracts. State capital appropriations also increased as funding was received on such capital projects as the Aberdeen Hall and Susquehanna Center renovations. Within operating revenues there was an increase of $1,049,829 in gross tuition and fee revenue (before scholarship allowances), a change of 7.8%. At the same time, full-time equivalent student (FTE) enrollment increased by 4.6%. Since tuition and fee rates remained unchanged in Fiscal Year 2009 from Fiscal Year 2008, this indicated that revenue grew faster than enrollment meaning more credit hours and noncredit courses were generated per FTE student.



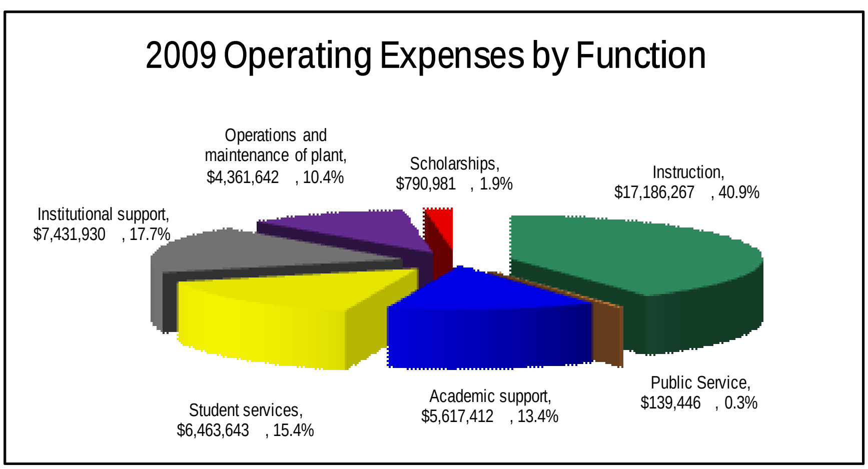
The major component of the 46.1% increase in other operating revenue was state reimbursements from prior years for selected tuition waivers. Interest income decreased by 67.2% reflecting lower interest rates. This change is evident as MLGIP interest rates fluctuated from a 5.21% high in FY 2008 to a .52% low in FY 2009.

Analyzing operating and non-operating revenues together, for FY 2009, tuition and fees net of scholarship allowances, comprise 21.6% of total revenues. State and county funding, including the state payment for retirement, provided an additional 59.5% of operating and non-operating revenues. The Auxiliary enterprises make up 8.8% 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, 2009	2008	Percent Change
OPERATING EXPENSES			
Instruction	$ 17,186,267	$ 14,768,204	16.4%
Public Service	139,446	100,144	39.2%
Academic support	5,617,412	4,928,093	14.0%
Student services	6,463,643	5,568,392	16.1%
Institutional support	7,431,930	6,978,650	6.5%
Operations and maintenance of plant	4,361,642	4,162,066	4.8%
Scholarships	790,981	711,283	11.2%
Sub-Total	41,991,321	37,216,832	12.8%
Auxiliary enterprises	3,893,481	3,741,623	4.1%
Certain fringe benefits paid directly by the State of Maryland	1,712,390	1,633,395	4.8%
Other operating expenses	-	13,022	-100.0%
Depreciation	2,747,165	2,714,707	1.2%
TOTAL	$ 50,344,357	$ 45,319,579	11.1%



Instruction accounts for 40.9% 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 positions, including adjunct faculty, to address increased enrollment demands.

Academic Support, Student Services and Institutional Support increased over the prior year primarily reflecting changes in salaries and benefits.

Other major components of operating expenses include: the $1,712,390 that represents the State's contribution for College employees to the Maryland State Retirement System and the recognition of $2,747,165 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 on the direct method 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 (indirect method).

CASH FLOWS

	Years Ended June 30, 2009	Years Ended June 30, 2008	Percent Change
Cash Provided By (Used In):			
Operating activities	$ (27,851,043)	$ (25,216,011)	10.4%
Noncapital financing activities	32,796,660	30,488,549	7.6%
Capital and related financing activities	(1,825,204)	(2,801,042)	-34.8%
Investing activities	258,912	788,179	-67.2%
Net increase in cash	3,379,325	3,259,675	3.7%
CASH, BEGINNING OF YEAR	24,069,289	20,809,614	15.7%
CASH, END OF YEAR	$ 27,448,614	$ 24,069,289	14.0%

The primary cash receipts from operating activities consist of tuition and fees of $11,183,394 and auxiliary enterprises of $4,375,452. Major cash outlays in operating activities consist of salaries and benefits of $29,274,209 and payments to suppliers of $15,127,115.

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. Net cash used in capital financing activities decreased from $2,801,042 in FY 2008 to $1,825,204 in FY 2009. 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 and Susquehanna Center renovations, and the Joppa Hall roof replacement project are responsible for the majority of the outlay.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2009, the College had $88.1 million invested in capital assets, including $13.5 million in construction in progress, less accumulated depreciation of $23.9 million. Depreciation charges for the current year totaled $2.7 million.

CAPITAL ASSETS, NET

	June 30,		Percent
	2009	2008	Change
CAPITAL ASSETS			
Land and land improvements	$ 13,032,690	$ 9,848,555	32.3%
Buildings	51,667,398	51,644,439	0.0%
Furniture and equipment	4,614,024	4,249,529	8.6%
Computer technology	4,728,233	4,592,360	3.0%
Vehicles	472,261	431,482	9.5%
Library books	133,331	251,046	-46.9%
Construction in progress	13,452,393	6,143,977	119.0%
Total	88,100,330	77,161,388	14.2%
Less accumulated depreciation	23,851,511	21,473,870	11.1%
NET CAPITAL ASSETS	$ 64,248,819	$ 55,687,518	15.4%

The major portion of the capital asset additions for FY 2009 consists of CIP associated with the renovation costs for Aberdeen Hall, along with land purchased for the West Campus Expansion project.

Debt

The College has no long-term debt as of June 30, 2009.

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 2010 state operating budget, there has been a reduction in the original FY2010 state funding for CADE funded colleges. The College has positioned itself to manage this reduction with vacancy and turnover savings in salaries.

Initial budget development assumptions by the College project that the CADE formula will be reduced. This will produce a decrease in total state funding in FY2011. Given the present financial market crisis, estimates for county funding in FY 2011 have also 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. Generally during economic slowdowns, enrollments in higher education institutions increase. Initial analysis suggests that enrollment will continue increasing in future years, although the rate of increase is expected to be smaller. The College plans to estimate a 3% enrollment increase for the FY2011 budget.

Expenditures can be expected to increase due to enrollment growth, 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, 2009

	Harford Community College	Component Unit Harford Community College Foundation
Assets		
Current Assets		
Cash and cash equivalents	$ 22,353,146	$ 688,964
Accounts receivable, net	2,903,014	-
Promises to give, net	-	107,484
Inventories	535,339	-
Prepaid expenses and other assets	252,232	23,215
Due from Foundation	11,927	-
Deposit with trustee	990,281	-
Total current assets	27,045,939	819,663
Noncurrent Assets		
Cash and cash equivalents, capital projects	5,095,468	-
Investments	-	4,151,050
Land and construction in progress	17,016,555	-
Capital assets being depreciated	71,083,775	-
Less accumulated depreciation	(23,851,511)	-
Total noncurrent assets	69,344,287	4,151,050
Total assets	96,390,226	4,970,713
Liabilities		
Current Liabilities		
Accounts payable	2,717,454	6,650
Retainage payable	494,780	-
Accrued liabilities	739,576	-
Deposits held for students	422,636	-
Deferred revenue	1,972,922	37,600
Due to College	-	11,927
Other liabilities	284,385	-
Total current liabilities	6,631,753	56,177
Noncurrent Liabilities		
Due within one year	101,573	-
Due in more than one year	1,051,680	-
Total noncurrent liabilities	1,153,253	-
Total liabilities	7,785,006	56,177
Net Assets		
Unrestricted	23,771,246	(196,652)
Investment in capital assets, net of related debt	64,248,819	-
Restricted:		
Expendable	585,155	2,221,131
Nonexpendable	-	2,890,057
Total net assets	$ 88,605,220	$ 4,914,536

See Notes to Financial Statements.

Harford Community College

Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2009

	Harford Community College	Component Unit Harford Community College Foundation
Operating revenues		
Student tuition and fees (net of scholarship allowances of $3,476,517)	$ 11,035,914	$ -
Gifts and contributions	-	435,671
Auxiliary enterprises	4,493,382	-
Other operating revenues	991,435	393
Total operating revenues	16,520,731	436,064
Operating expenses		
Instruction	17,186,267	-
Public service	139,446	-
Academic support	5,617,412	-
Student services	6,463,643	-
Institutional support	7,431,930	-
Operations and maintenance of plant	4,361,642	-
Scholarship expense	790,981	-
Certain fringe benefits paid directly by the State of Maryland	1,712,390	-
Other operating expenses	-	92,180
Depreciation	2,747,165	-
Auxiliary enterprises	3,893,481	-
Total operating expenses	50,344,357	92,180
Operating (loss) income	(33,823,626)	343,884
Non-operating revenues (expenses)		
Certain fringe benefits paid directly by the State of Maryland	1,712,390	-
Federal grants and contracts	3,328,431	-
State of MD grants and contracts	11,870,484	-
Harford County grants and contracts	16,761,364	-
Contributions from individuals and organizations	236,991	-
Contributions from HCC Foundation	513,807	(513,807)
Investment income (loss)	258,912	(956,128)
Loss on disposal of assets	(217,397)	-
Net non-operating revenues (expenses)	34,464,982	(1,469,935)
Income (loss) before capital contributions and additions to endowments	641,356	(1,126,051)
State capital grants	5,022,534	-
Harford County capital grants	3,940,729	-
Contributions for permanent endowments	-	213,657
Increase (decrease) in net assets	9,604,619	(912,394)
Net assets, beginning of year	79,000,601	5,826,930
Net assets, end of year	$ 88,605,220	$ 4,914,536

See Notes to Financial Statements.

Harford Community College

Statement of Cash Flows
Year Ended June 30, 2009

	Harford Community College	Component Unit Harford Community College Foundation
Cash Flows from Operating Activities		
Tuition and fees	$ 11,183,394	$ -
Contributions	-	449,756
Interest and dividends received	-	136,621
Payments to suppliers	(15,127,115)	(621,227)
Payments to employees	(29,274,209)	-
Auxiliary enterprise charges	4,375,452	-
Other receipts	991,435	393
Net cash used in operating activities	(27,851,043)	(34,457)
Cash Flows from Noncapital Financing Activities		
Federal Student Loan Programs receipts	582,753	-
Federal Student Loan Programs disbursements	(582,753)	-
Federal grants and appropriations	3,244,888	-
State grants and appropriations	11,916,279	-
County grants and appropriations	16,654,949	-
Private grants and contributions	980,544	267,386
Net cash provided by noncapital financing activities	32,796,660	267,386
Cash Flows from Capital and Related Financing Activities		
Capital grants received	9,205,879	-
Purchase of capital assets	(11,031,083)	-
Net cash used in capital and related financing activities	(1,825,204)	-
Cash Flows from Investing Activities		
Investment income	258,912	-
Purchases of marketable securities	-	(1,975,821)
Proceeds from sale of marketable securities	-	1,626,848
Net repayments of loans receivable	-	(1,158)
Net cash provided by (used in) investing activities	258,912	(350,131)
Net increase (decrease) in cash and cash equivalents	3,379,325	(117,202)
Cash and cash equivalents, beginning of year	24,069,289	806,166
Cash and cash equivalents, end of year	$ 27,448,614	$ 688,964
Cash and cash equivalents - current	$ 22,353,146	$ 688,964
Cash and cash equivalents - capital projects	5,095,468	-
	$ 27,448,614	$ 688,964

(Continued)

Harford Community College

Statement of Cash Flows (Continued)
Year Ended June 30, 2009

	Harford Community College	Component Unit Harford Community College Foundation
Reconciliation of operating loss and change in net assets to net cash used in operating activities:		
Operating loss	$ (33,823,626)	$ -
Change in net assets	-	(912,394)
Adjustments to reconcile operating loss and change in net assets to net cash used in operating activities:		
Depreciation expense	2,747,165	-
Certain fringe benefits paid directly by the State of Maryland	1,712,390	-
Allowance and discount on receivables and promises to give	-	(448)
Donated securities	-	(511)
Realized and unrealized losses on securities	-	1,092,749
Contributions for permanent endowments	-	(213,717)
Changes in assets and liabilities:		
Accounts receivable	309,849	15,357
Inventories	(60,052)	-
Prepaid expenses	19,289	532
Due to/from Foundation/College	25,275	(25,275)
Accounts payable	663,939	2,450
Accrued salaries	112,349	-
Accrued compensated absences	283,404	-
Other accrued liabilities	56,698	-
Deferred revenue	43,850	6,800
Deposits held in custody for others	58,427	-
Net cash used in operating activities	$ (27,851,043)	$ (34,457)

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 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 and related 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 and related 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; [c] paying for capital assets obtained from vendors on credit, and [d] obtaining local, state, and federal grants for acquiring, constructing, or improving capital assets. 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. Cash held for capital projects is unrestricted as to use; however, the amounts have been set aside to cover expenditures related to capital projects.

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 $339,689 and $18,219 at June 30, 2009 for the College and Foundation, respectively.

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, is 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 $3,476,517 for fiscal year 2009.

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, 2009, 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 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, 2009 were $3,706,805.

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 carry over is not subject to limitation. Sick leave days are not paid out at termination except in the case of retirement and 10 years of serviceable employment where a maximum of 360 days can be paid out at a per diem rate of $30.

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 and Foundation are 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, 2009, the carrying amount of the College deposits, including petty cash of $10,692, was $3,188,942 and the bank balance was $3,742,497.

At June 30, 2009, the College had $19,259,672 invested in MLGIP. At June 30, 2009, the College had $5,000,000 invested in an overnight repurchase agreement with M&T Bank.

Cash and cash equivalents of the Foundation include money market funds which are available for current operations. Money market funds included therein are stated at fair value, which approximates cost. The Foundation maintains its cash in bank deposits, which at times may be uninsured, and in money market funds which are uninsured. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on cash and money market funds.

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, 2009, all of the College's bank balances of $3,742,497 were insured by the FDIC under the transaction account guarantee program component of the Temporary Liquidity Guarantee Program.

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, 2009, the MLGIP funds had a weighted average maturity of 50 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 AAAm 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, 2009, the College's investment in an overnight repurchase agreement was not rated.

Custodial Credit Risk – Investments: The College does not have a formal investment policy for custodial credit risk. 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, 2009, the College's investments in the MLGIP are not subjected to custodial credit risk. The College's investment in the repurchase agreement with the bank is collateralized by Federal agency obligations held by the bank in the College's name.

Note 2. Cash and Cash Equivalents (Continued)

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

Concentration of Credit Risk: The College does not have a formal investment policy for concentration of credit risk. At June 30, 2009, the College had the following investments which exceeded 5% of the College's total investments:

Issuer	Type of Investment	Amount	Percentage of Investments
M&T Bank	Repurchase Agreement	$ 5,000,000	20.61%

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, 2009:

	Fair Value	Cost
Cash equivalents	$ 135,552	$ 135,552
Certificates of deposit	191,809	192,000
Fixed income funds	865,240	859,663
Equity funds	2,958,449	4,050,109
Total	$ 4,151,050	$ 5,237,324

Investment income consists of interest and dividends of $136,621, net of fees, and realized and unrealized losses of $1,092,749 for the year ended June 30, 2009.

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

Promises to give consist of the following at June 30, 2009:

Promises to give	$ 113,153
Discount	(5,669)
	$ 107,484

Amounts due in:	
Less than one year	$ 58,153
One to five years	55,000
	$ 113,153

Note 5. Receivables and Payables

Receivables and payables of the College consist of the following at June 30, 2009:

Accounts receivable:	
Federal Government	$ 308,635
State of Maryland	1,251,184
Harford County, Maryland	444,800
Student receivables and other	898,395
	$ 2,903,014
Accounts payable: vendors	$ 2,717,454
Accrued liabilities:	
Payroll and payroll taxes	$ 739,576

Note 6. Capital Assets and Related Accumulated Depreciation

The following is a summary of capital asset activity of the College for the year ended June 30, 2009:

	Balance June 30, 2008	Addition	Retirement	Transfer	Balance June 30, 2009
Capital assets not being depreciated:					
Land	$ 1,916,499	$ 1,555,150	$ -	$ 92,513	$ 3,564,162
Construction in progress	6,143,977	8,340,510	-	(1,032,094)	13,452,393
Total capital assets not being depreciated	8,060,476	9,895,660	-	(939,581)	17,016,555
Capital assets being depreciated:					
Land improvements	7,932,056	596,891	-	939,581	9,468,528
Buildings	51,644,439	22,959	-	-	51,667,398
Furniture and equipment	4,249,529	687,899	(323,404)	-	4,614,024
Computer technology	4,592,360	173,039	(37,166)	-	4,728,233
Vehicles	431,482	40,779	-	-	472,261
Library books	251,046	108,637	(226,352)	-	133,331
Total capital assets being depreciated	69,100,912	1,630,204	(586,922)	939,581	71,083,775
Less accumulated depreciation for:					
Land improvements	2,722,242	277,673	-	-	2,999,915
Buildings	12,322,959	1,759,323	-	-	14,082,282
Furniture and equipment	2,853,124	288,498	(293,854)	-	2,847,768
Computer technology	3,283,884	336,792	(19,462)	-	3,601,214
Vehicles	235,453	40,435	-	-	275,888
Library books	56,209	44,444	(56,209)	-	44,444
Total accumulated depreciation	21,473,871	2,747,165	(369,525)	-	23,851,511
Total capital assets being depreciated, net	47,627,041	(1,116,961)	(217,397)	939,581	47,232,264
Total capital assets, net	$ 55,687,517	$ 8,778,699	$ (217,397)	$ -	$ 64,248,819

Note 7. Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2009 is as follows:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009	Balance Due Within Year
Compensated absences	$ 817,628	$ 452,601	$ (169,197)	$ 1,101,032	$ 61,573
Other post-employment benefits	23,017	67,000	(37,796)	52,221	40,000
	$ 840,645	$ 519,601	$ (206,993)	$ 1,153,253	$ 101,573

Note 8. Operating Leases

The College has entered into lease agreements for office equipment that are accounted for as operating leases. Minimum future lease payments under these agreements as of June 30, 2009 are as follows:

Years Ending June 30,	
2010	$ 270,864
2011	225,720
	$ 496,584

Total rent expense for the years ended June 30, 2009 was $282,923.

Note 9. 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 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,
- The Pension System for Employees 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 defined benefit plans.

Note 9. Retirement 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 $46,888 and contributions by the State of Maryland on behalf of the College totaling $1,712,390, or 9.60% of covered payroll for fiscal year 2009, were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2008.

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
2007	$ 1,352,142	$ 42,841	$ 1,309,301	100.00%	-
2008	1,683,175	49,780	1,633,395	100.00%	-
2009	1,759,278	46,888	1,712,390	100.00%	-

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 10. 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 or b) meets the minimum age eligibility requirement to begin distribution from the Maryland Optional Retirement Plan (ORP) and (c) has been actively participating within the College sponsored health plan for at least the most recent ten (10) full consecutive years and (d) has at least 10 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. As of June 30, 2009, there were eight eligible and participating retirees receiving an annual subsidy. The Plan does not issue a stand-alone financial report.

As of June 30, 2009, there were 73 participants out of 283 total participants receiving benefits.

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

Note 10. Postemployment Benefits Other Than Pensions

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	$ 67,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	67,000
Contributions made	(37,796)
Increase in net OPEB obligation	29,204
Net OPEB obligation - beginning of year	23,017
Net OPEB obligation - end of year	$ 52,221

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2009 and 2008 were as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	$ 67,000	56.4%	$ 52,221
2008	64,470	64.3%	23,017

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.

Note 10. Postemployment Benefits Other Than Pensions (Continued)

Actuarial Methods and Assumptions (Continued): 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 11. 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 pooling resources to purchase health insurance thereby reducing administrative expenses and expanding the provider network. At June 30, 2009, the College had amounts on deposit with the trustee of the Consortium totaling $990,281. 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 $176,378 and $169,777 for the self-insured portion is reflected in the statement of net assets as of June 30, 2009 and 2008, respectively.

Note 12. Related Party Transactions

During the year ended June 30, 2009, the Foundation distributed $513,807 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 $20,911 for the year ended June 30, 2009.

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

Note 13. Harford Community College – Restricted Net Assets

Restricted (expendable) net assets are restricted for the following purposes as of June 30, 2009:

Scholarships and fellowships	$ 495,508
Loans	89,647
	$ 585,155

Note 14. Harford Community College Foundation – Restricted Net Assets

Temporarily restricted net assets consist of the following as of June 30, 2009:

Endowment investments and earnings restricted for:	
Scholarships	$ 1,528,304
Other	943
Contributions restricted for:	
Equipment and programs	174,377
Scholarships	373,211
Loan fund	144,296
	$ 2,221,131

Note 14. Harford Community College Foundation – Restricted Net Assets (Continued)

Permanently restricted net assets at June 30, 2009 are restricted in perpetuity with income available to support the following purposes:

Scholarships	$ 2,290,945
General purpose	309,917
Specific programs	289,195
	$ 2,890,057

Note 15. Recent Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2009, 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. 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. 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.

GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*, issued March 2009, will be effective for the College beginning with the year ending June 30, 2011. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, unassigned amounts are considered to have been spent.

Note 16. Commitments

The College has outstanding commitments for the following ongoing capital projects as of June 30, 2009:

	Amount
Aberdeen Hall	$ 1,729,067
Hays Heighe	582,966
Roof replacement	544,690
Susquehanna Center	357,820
Other projects	107,260
	$ 3,321,803

These projects will be funded primarily through capital grants from the County and State.

Harford Community College
Required Supplementary Information

Schedules of Funding Progress and Employer Contributions
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%

Schedule of Employer Contributions

Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2009	$ 67,000	56.4%
2008	64,470	64.3%

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, 2009

	(Unaudited) Budgeted Amounts Original	(Unaudited) Budgeted Amounts Adjusted	Actual (Budgetary Basis)	Variance with Adjusted Budget Favorable (Unfavorable)
Revenues:				
Tuition and fees	$ 12,570,000	$ 13,090,000	$ 14,451,555	$ 1,361,555
State of Maryland	10,540,258	10,051,421	10,131,139	79,718
Harford County, MD	16,778,743	15,939,806	15,939,806	-
Investment income	926,336	926,336	258,912	(667,424)
Other revenue	633,664	633,664	866,563	232,899
Total revenues	41,449,001	40,641,227	41,647,975	1,006,748
Fund balance transfer in	2,666,878	2,666,878	2,666,878	-
Total revenues and transfers	44,115,879	43,308,105	44,314,853	1,006,748
Expenditures:				
Instruction	17,116,371	16,496,607	16,047,254	449,353
Academic Support	5,918,248	5,855,408	5,543,632	311,776
Student Services	4,615,650	4,583,059	4,370,089	212,970
Institutional Support	7,443,709	7,361,130	7,351,199	9,931
Operations of Plant	4,578,990	4,568,990	4,187,061	381,929
Scholarships & Fellowships	844,840	844,840	785,310	59,530
Transfers	3,598,071	3,598,071	3,587,542	10,529
Total expenditures	44,115,879	43,308,105	41,872,087	1,436,018
Excess of revenues over expenditures	$ -	$ -	$ 2,442,766	$ 2,442,766

Harford Community College

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program Title	CFDA* Number	Grantor's Number	Grant Expenditures
U.S. Department of Education			
Direct Awards:			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants 09	84.007	-	$ 52,906
Federal Work-Study Program 08	84.033	-	10,280
Federal Work-Study Program 09	84.033	-	101,192
Federal Pell Grant Program 08	84.063	-	(386)
Federal Pell Grant Program 09	84.063	-	2,821,415
Federal Family Education Loans 09	84.032	-	582,753
Academic Competitiveness Grants 09	84.375	-	47,375
Total Student Financial Assistance Cluster			3,615,535
Administered Through the Maryland State Department of Education (MSDE)			
Voc. Ed. Act - Adult Education Title IIA			
Career and Technical Education -- Basic Grants to States			
DCTE Spec Pop Program Improvements 08	84.048	801518	34,729
DCTE Spec Pop Program Improvements 09	84.048	900957	178,586
Tech-Prep Education	84.243	900957	20,096
Adult Basic Education Act			
Adult Education - Basic Grants to States	84.002	900379	119,184
Total Federal Programs Administered Through the MSDE			352,595
Administered Through the Maryland Association of Community Colleges			
Fund for the Improvement of Postsecondary Education			
Federal Nursing Grant	84.116Z	P116Z080033	121,622
Total U.S. Department of Education			4,089,752
U.S. Small Business Administration			
Administered Through Maryland Small Business Development			
Small Business Development Centers	59.037	Q002301	84,464
Small Business Development Centers	59.037	Z920201	29,160
			113,624
U.S. Department of Health and Human Services			
Administered Through Maryland Department of Health and Mental Hygiene			
HIV Prevention Activities - Health Department Based FY08	93.940	OCPMP07-9257-G	(81)
HIV Prevention Activities - Health Department Based FY09	93.940	OCPMP07-9257-G	89,183
HIV Care Formula Grants - Regional Advisory Committee Activities	93.917	DHMH AIDS 08-065G	50,344
			139,446
U.S. Department of Defense			
Administered Through the Higher Education Center			
Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation			
HECC HEA Expansion Feasibility Study	12.607	RA06155-08-02-08-01	12,000
Regional BRAC Growth Plan	12.607	RA06155-08-02-08-02	74,844
			86,844
National Science Foundation			
Education and Human Resources - Information Assurance Project	47.076	09-CC02-006	3,347
Total Federal Awards Expended			$ 4,433,013

* CFDA - Catalog of Federal Domestic Assistance

See Note 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, 2009, and have issued our report thereon dated September 3, 2009. 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 The Harford Community College Foundation, Inc. (the discretely presented 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
September 3, 2009

McGladrey & Pullen
Certified Public Accountants

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, 2009. The College's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local 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, 2009.

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
September 3, 2009

Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies) identified that are 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(ies) identified that are 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
	Student Financial Assistance Program
84.007	Federal Supplemental Educational Opportunities Grant
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.032	Federal Family Education Loans Program
84.375	Academic Competitiveness Grant

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*

None reported.

III. Findings and Questioned Costs for Federal Awards under OMB Circular A-133

None reported.

Harford Community College

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2009

There were no unresolved audit findings from prior years.