

**HARFORD COMMUNITY COLLEGE**  
**COMPONENT UNIT FINANCIAL STATEMENTS**  
**AND**  
**SINGLE AUDIT COMPLIANCE REPORTS**  
**YEAR ENDED JUNE 30, 2012**

**HARFORD COMMUNITY COLLEGE  
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## INDEPENDENT AUDITORS' REPORT

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, 2012, 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, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2012 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 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11 and the Schedule of Funding Progress on page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's financial statements as a whole. 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 financial statements. The Budgetary Comparison Schedule – General Operating Fund and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
August 30, 2012

**HARFORD COMMUNITY COLLEGE  
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2012**

***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, 2012. 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, 2012, 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 postemployment benefits are considered short-term in nature.

Net assets are divided into four major categories:

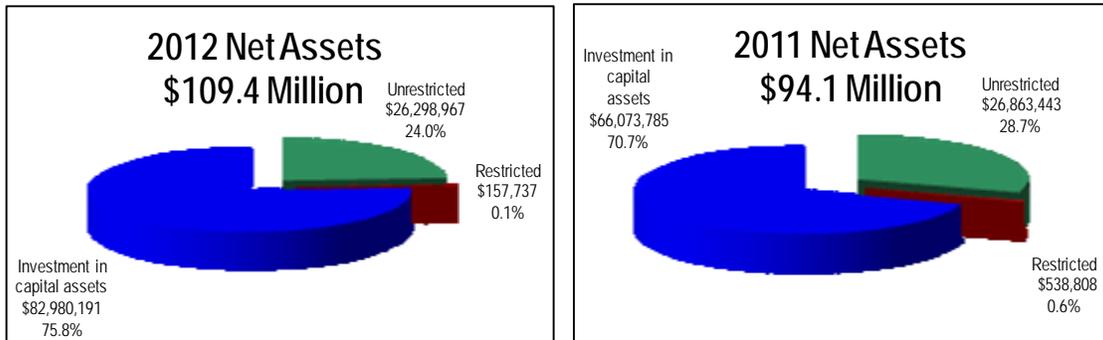
- Unrestricted net assets - available to the College for any lawful purpose.
- Capital assets - the College's ownership equity in property, plant and equipment, net of related debt.
- Expendable restricted net assets - available to be spent by the College after externally imposed stipulations have been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

**HARFORD COMMUNITY COLLEGE  
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2012**

**CONDENSED STATEMENT OF NET ASSETS**

	June 30, 2012	% of total	June 30, 2011	% of total
<b>Assets</b>				
Current assets	\$ 31,020,525	25.8%	\$ 28,585,844	28.4%
Noncurrent assets	89,287,840	74.2%	72,018,915	71.6%
Total assets	<u>120,308,365</u>	<u>100.0%</u>	<u>100,604,759</u>	<u>100.0%</u>
<b>Liabilities</b>				
Current liabilities	9,655,731	88.8%	5,309,701	81.5%
Noncurrent liabilities	1,215,739	11.2%	1,203,553	18.5%
Total liabilities	<u>10,871,470</u>	<u>100.0%</u>	<u>6,513,254</u>	<u>100.0%</u>
<b>Net Assets</b>				
Investment in capital assets	82,980,191	75.8%	65,657,628	69.8%
Restricted	157,737	0.2%	358,737	0.4%
Unrestricted	26,298,967	24.0%	28,075,140	29.8%
Total net assets	<u>\$ 109,436,895</u>	<u>100.0%</u>	<u>\$ 94,091,505</u>	<u>100.0%</u>

*Fiscal Year 2012 compared to 2011.* Net assets increased \$15.3 million from \$94.1 million in FY 2011 to \$109.4 million in 2012. Current assets increased by \$2.4 million. Current assets consists primarily of cash and cash equivalents and accounts receivable, which 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 2013 tuition and fees. The change in current assets from the prior year reflects an increase in accounts receivable which is primarily attributed to \$3.1 million due from the State for reimbursements associated with the Susquehanna Center renovation. Cash increased \$1.5 million which is partially related to the \$1.2 million withdrawal of cash from the Deposit with Trustee accounts receivable balance. The change in current liabilities is the result of a \$1.9 million increase in vouchers payable due for construction services associated with the Susquehanna Center renovation, and \$1.8 million in retainage payable for construction contracts related to the Susquehanna renovation and the new water and wastewater facility.



**HARFORD COMMUNITY COLLEGE  
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2012**

The unrestricted net assets include the balances transferred to budget for existing capital programs that are currently in progress along with auxiliary service fund balances generated through operations. Currently, designations of \$7.4 million are budgeted within the plant funds for various capital projects such as Susquehanna Center, Water and Wastewater, Infrastructure Improvement, Roof Replacement, and Computer Equipment and Technology. In addition, \$200,000 of the auxiliary's Unrestricted Net Assets is designated for support of the FY 2013 Operating Budget.

The unrestricted net assets are also designated for future use to support capital projects. In an effort to practice sound financial management, a portion of the Unrestricted Net Assets is designated for future capital investments. Because such Unrestricted Net Assets generally represent non-recurring funds, the College utilizes these funds to support one-time facilities' improvements and capital projects that may not be funded by the State of Maryland and/or Harford County. These assets have also been used to enhance capital projects that receive public funding, yet require additional funding to meet College needs. Each year the Board of Trustees approves a Ten Year Capital Improvement Program (CIP). The CIP includes investments that the College will make during this period. For FY 2013, a total of \$1.6 million of Unrestricted Net Assets are designated to support the College's "one-time" investment in projects such as the new water and wastewater facility, Susquehanna Center renovation, and the construction of a new Plant Services Annex.

Restricted net assets consist of student loans and funds related to the Innovative Partners and Technology (IPT) program. The decrease in unrestricted net assets is a result of the increase in "one-time" capital expenditures funded by the College coupled with a shortfall in the FY 2012 tuition revenues established within the original budget.

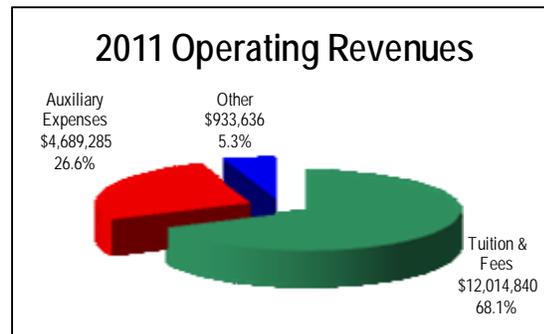
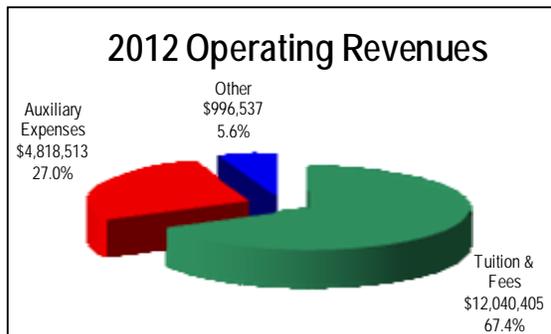
***Statement of Revenues, Expenses and Changes in Net Assets***

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.

**HARFORD COMMUNITY COLLEGE  
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2012**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	Years Ended June 30, 2012	2011	Percent Change
<b>OPERATING REVENUE</b>			
Tuition and fees	\$ 12,040,405	\$ 12,014,840	0.2%
Auxiliary enterprises	4,818,513	4,689,285	2.8%
Other	996,537	933,636	6.7%
Total operating revenue	<u>17,855,455</u>	<u>17,637,761</u>	1.2%
<b>OPERATING EXPENSES</b>	<u>57,531,678</u>	54,564,488	5.4%
Net operating loss	<u>(39,676,223)</u>	<u>(36,926,727)</u>	7.4%
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Certain fringe benefits paid directly by the State of Maryland	2,208,768	2,048,714	7.8%
State grants and contracts	11,243,685	11,177,922	0.6%
Federal grants and contracts	7,472,387	6,859,145	8.9%
Local grants and contracts	15,694,942	15,255,740	2.9%
Contributions	901,216	1,142,508	-21.1%
Interest income	26,762	39,937	-33.0%
Loss on disposal of assets	(6,905)	(88,940)	0.0%
Total nonoperating revenues	<u>37,540,855</u>	<u>36,435,026</u>	3.0%
Loss before other revenues	<u>(2,135,368)</u>	<u>(491,701)</u>	334.3%
State capital grants	6,121,351	191,179	-
Harford County capital grants	11,359,407	915,991	1140.1%
<b>INCREASE IN NET ASSETS</b>	<u>15,345,390</u>	615,469	2393.3%
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>94,091,505</u>	<u>93,476,036</u>	0.7%
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 109,436,895</u>	<u>\$ 94,091,505</u>	16.3%



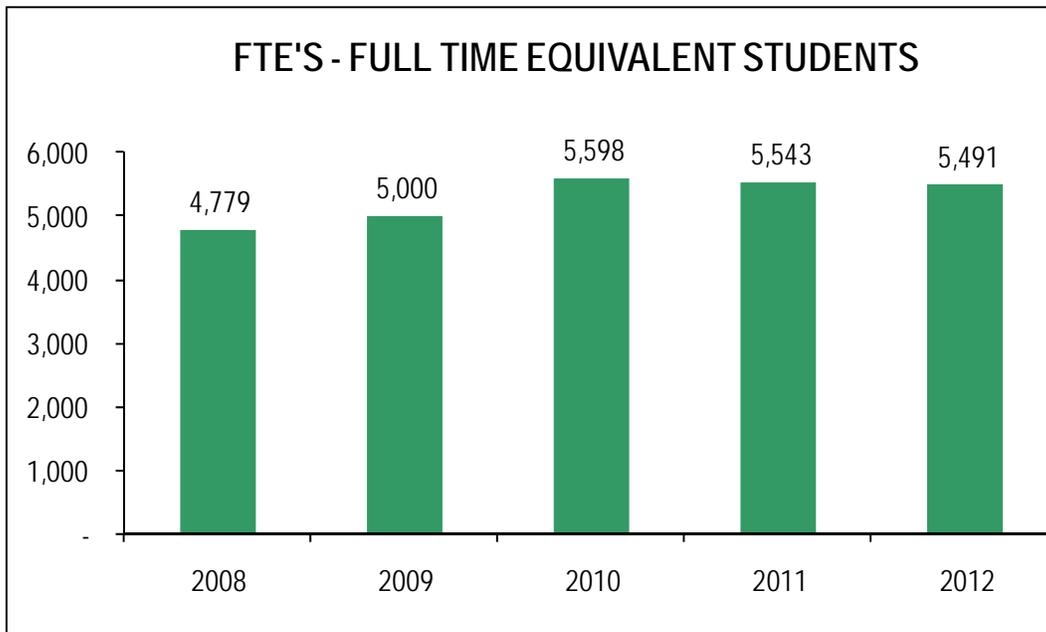
Generally speaking, operating revenues are received for providing goods and services to students and other various constituencies and customers of the College. Operating expenses are paid to acquire or produce the goods and services that are provided in return for operating revenues, thus carrying out 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.

**HARFORD COMMUNITY COLLEGE  
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2012**

*Fiscal Year 2012 compared to 2011.* Net assets increased \$15.3 million or 16.3% for 2012. This increase was generated principally through an additional \$16.4 million in county and state revenues for capital projects, primarily associated with the Susquehanna Center renovation. In FY 2012, the College received \$0.5 million and \$0.3 million more in local and state general operating funds. Auxiliary Enterprise revenues increased \$0.1 million due to an increase in College Store revenue primarily associated with the new textbook rental program.

Net tuition and fees increased 0.2%. Scholarship allowances in 2012 are \$4,838,769 or 28.7% of gross tuition and fee revenue, which is a decrease of 8.8% from 2011 scholarship allowances of \$5,305,217 or 30.6% of gross tuition and fee revenue. Despite the decrease in the allowance versus FY 2011, the 28.7% still indicates that a large portion of the College's students receive federal or some other form of financial assistance. Total scholarships awarded prior to refunds actually increased \$0.7 million in 2012.

The full-time equivalent (FTE) student enrollment decreased by 52 or 0.9%. Non-credit FTE students decreased by 160. Credit FTE students increased 108 due to the timing associated with the start of the summer sessions when compared with FY 2011.



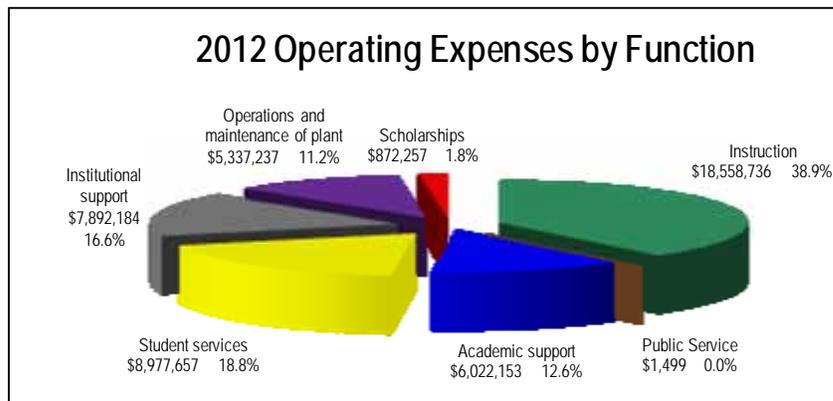
Analyzing operating and non-operating revenues together for 2012, tuition and fees net of scholarship allowances, comprise 21.7% of total revenues. State and county funding, including the state payment for retirement, provided an additional 52.6% of operating and non-operating revenues. Federal funding increased 8.9% from 2011 to account for 13.5% of total 2012 revenues. The auxiliary enterprises generated 8.7% of total 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.

**HARFORD COMMUNITY COLLEGE  
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2012**

**OPERATING EXPENSES**

	Years Ended June 30,		Percent
	2012	2011	Change
<b>OPERATING EXPENSES</b>			
Instruction	\$ 18,558,736	\$ 17,982,743	3.2%
Public Service	1,499	2,231	-32.8%
Academic support	6,022,153	5,762,810	4.5%
Student services	8,977,657	8,458,163	6.1%
Institutional support	7,892,184	7,634,780	3.4%
Operations and maintenance of plant	5,337,237	4,298,298	24.2%
Scholarships	872,257	994,465	-12.3%
Sub-Total	<u>47,661,723</u>	<u>45,133,490</u>	<u>5.6%</u>
Auxiliary enterprises	4,400,496	4,232,183	4.0%
Certain fringe benefits paid directly by the State of Maryland	2,208,768	2,048,714	7.8%
Depreciation	3,260,691	3,150,101	3.5%
<b>TOTAL</b>	<u><u>\$ 57,531,678</u></u>	<u><u>\$ 54,564,488</u></u>	<u><u>5.4%</u></u>



Instruction accounts for 38.9% of the total operating expense of the College. This figure does not include the state payment for retirement benefit associated with instruction. The instruction function increased 3.2% primarily due to employee salary adjustments combined with health claims experience that was very favorable in FY 2011 and flattened out in FY 2012.

Academic Support, Student Services and Institutional Support also increased due to the employee salary adjustment and a change in the health claims experience compared with the prior year. A portion of the increase in Institutional Support is also attributed to the new State Retirement and Pension Plan administrative fee that is now being charged by the state.

The increase in Operation and Maintenance of Plant expenses is related to the employee salary adjustment and the health claims experience along with additional non-capital costs incurred in conjunction with the Susquehanna Center renovation and the construction of the roundabout at campus entrance 3 on Thomas Run Road.

**HARFORD COMMUNITY COLLEGE  
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2012**

Other major components of operating expenses include: the \$2,208,768 that represents the state's contribution for college employees to the Maryland state retirement system and the recognition of \$3,260,691 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, 2012	2011	Percent Change
Cash Provided (Used) By:			
Operating activities	\$ (28,814,637)	\$ (32,806,553)	-12.2%
Noncapital financing activities	35,938,573	34,067,995	5.5%
Capital and related financing activities	(5,699,018)	(2,016,665)	182.6%
Investing activities	26,762	39,937	-33.0%
Net increase (decrease) in cash	<u>1,451,680</u>	<u>(715,286)</u>	<u>-303.0%</u>
CASH, BEGINNING OF YEAR	<u>29,641,389</u>	<u>30,356,675</u>	<u>-2.4%</u>
CASH, END OF YEAR	<u>\$ 31,093,069</u>	<u>\$ 29,641,389</u>	<u>4.9%</u>

The primary cash receipts from operating activities consist of \$12,244,138 from tuition and fees and \$4,899,681 from auxiliary enterprises. Major cash outlays in operating activities consist of salaries and benefits of \$31,949,431 and payments to suppliers of \$15,005,562.

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 5.5% increase results from an additional \$0.4 million in local funding provided to the College for general operations. The remainder of the increase primarily represents an increase in cash flows associated with federal grants and appropriations, specifically those received from the US Department of Education for Pell grants.

**HARFORD COMMUNITY COLLEGE  
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2012**

The primary financing activities included within the report are associated with capital appropriations for the College's commitment to expansion of new facilities and the continued renovation of its older facilities. Net cash used in capital financing activities increased from \$2,016,665 in 2011 to \$5,699,018 in 2012. The College has transferred funds from the general fund balance that were utilized for FY 2012 capital project expenditures. The College has also made appropriate outlay for certain capital purchases with the understanding that reimbursement by the state and county parties will follow in the subsequent year. Capital expenditures incurred with the renovation of the Susquehanna Center are responsible for the majority of the outlay.

***Capital Asset and Debt Administration***

**Capital Assets**

At June 30, 2012, the College had \$115.8 million invested in capital assets, including \$22.4 million in construction in progress, less accumulated depreciation of \$32.8 million. Depreciation charges for the current year totaled \$3.3 million.

CAPITAL ASSETS, NET

	June 30, 2012	2011	Percent Change
<b>CAPITAL ASSETS</b>			
Land and land improvements	\$ 13,853,907	\$ 13,853,907	0.0%
Buildings	67,682,080	66,947,768	1.1%
Furniture and equipment	5,020,172	4,963,797	1.1%
Computer technology	4,615,224	4,904,484	-5.9%
Vehicles	595,380	456,894	30.3%
Library books	1,640,994	1,928,696	-14.9%
Construction in progress	22,404,420	3,345,542	569.7%
Total	115,812,177	96,401,088	20.1%
Less accumulated depreciation	32,831,986	30,743,460	6.8%
<b>NET CAPITAL ASSETS</b>	\$ 82,980,191	\$ 65,657,628	26.4%

Buildings increased \$0.7 million primarily due to the capitalized costs associated with the Observatory and the construction of the Black Box Theater. The \$22.4 million contained within the CIP balance primarily consists of capital expenditures related to the Susquehanna Center renovation and the new water and wastewater facility.

**Debt**

The College has no long-term debt as of June 30, 2012.

**HARFORD COMMUNITY COLLEGE  
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2012**

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

The economic position of the College is tied to the overall economy. The flow of state and county revenues has continued to slow below original estimates. As the structural deficit for the state continues, the Cade funding formula continues to be reduced. This limits the College's growth in expenditures and places pressure on the College to increase enrollment and/or increase tuition rates in order to supplant these public funds. In fiscal year 2013, the anticipated state funding is projected to remain flat to fiscal year 2012. Harford County also faces challenges as the shift of teachers' pension costs from the state to the county impairs their general fund revenue available to support the College. Future increases in county funding will have to contend with this added funding mandate placed on Harford County. The county funding distributed to the College for operations is projected to remain flat in fiscal year 2013. While much discussion concerning public funding is couched in the present economy and the notion that this may be the new normal, it may take several years before community college funding is restored to previous levels.

In addition to cost containment efforts, the College continues to look for opportunities to generate revenue from other sources. The College is also developing a strategy to generate additional tuition and fee revenue. A \$5 increase in the credit hour tuition rate was approved by the Board of Trustees for FY 2013. Despite this increase, the College will continue to maintain the least expensive college tuition in Maryland, leaving room for potential escalation that may be required in future years.

Credit enrollment increased at very high rates during the period FY 2009 through FY 2011. This enrollment increase aligned with the theory that during economic recessions, community college enrollments generally rise. However, based on the FY 2012 enrollment numbers, it appears that enrollment may have hit a plateau. The College experienced relatively flat enrollment numbers on the credit side and experienced a downfall on the non-credit side. Early indications are that the College may struggle to maintain the same levels of enrollment in FY 2013.

The College is anticipating that deferred maintenance will become a very important issue in future years as buildings and other capital assets continue to age. The College currently has certain unrestricted funds designated for improvements such as roof replacements and the resurfacing of parking lots. In FY 2013, the College will respond by additionally designating a portion of the unrestricted fund balance toward general deferred maintenance costs. As we continue to plan for these forthcoming expenses, the College is also searching for other revenue streams which would provide additional funding resources.

**HARFORD COMMUNITY COLLEGE  
STATEMENT OF NET ASSETS  
JUNE 30, 2012**

	Harford Community College	Component Unit Harford Community College Foundation
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 24,785,420	\$ 317,591
Accounts Receivable, Net	4,588,567	-
Promises to Give, Net	-	641,185
Inventories	502,777	-
Prepaid Expenses and Other Assets	423,295	19,225
Due from Foundation	53,494	-
Deposit with Trustee	666,972	-
Total Current Assets	31,020,525	978,001
Noncurrent Assets:		
Cash and Cash Equivalents, Capital Projects	6,307,649	-
Investments	-	6,199,915
Land and Construction in Progress	25,968,582	-
Capital Assets being Depreciated	89,843,595	-
Less: Accumulated Depreciation	(32,831,986)	-
Total Noncurrent Assets	89,287,840	6,199,915
Total Assets	120,308,365	7,177,916
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	3,574,659	-
Retainage Payable	1,814,065	-
Accrued Liabilities	946,767	-
Deposits Held for Students	343,733	-
Deferred Revenue	2,804,890	22,750
Compensated Absences, Current	73,868	-
Due to College	-	53,494
Other Liabilities	97,749	-
Total Current Liabilities	9,655,731	76,244
Noncurrent Liabilities:		
Other Post-Employment Benefits	120,221	-
Compensated Absences, Net of Current Portion	1,095,518	-
Total Noncurrent Liabilities	1,215,739	-
Total Liabilities	10,871,470	76,244
<b>NET ASSETS</b>		
Unrestricted	26,298,967	257,606
Investment in Capital Assets, Net of Related Debt	82,980,191	-
Restricted:		
Expendable	157,737	3,671,687
Nonexpendable	-	3,172,379
Total Net Assets	\$ 109,436,895	\$ 7,101,672

See accompanying Notes to Financial Statements.

**HARFORD COMMUNITY COLLEGE**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2012**

	Harford Community College	Component Unit Harford Community College Foundation
<b>OPERATING REVENUES</b>		
Student Tuition and Fees (Net of Scholarship Allowances of \$4,838,769)	\$ 12,040,405	\$ -
Gifts and Contributions	-	1,194,973
Auxiliary Enterprises	4,818,513	-
Other Operating Revenues	996,537	5,696
Total Operating Revenues	17,855,455	1,200,669
<b>OPERATING EXPENSES</b>		
Instruction	18,558,736	-
Public Service	1,499	-
Academic Support	6,022,153	-
Student Services	8,977,657	-
Institutional Support	7,892,184	-
Operations and Maintenance of Plant	5,337,237	-
Scholarship Expense	872,257	-
Certain Fringe Benefits Paid Directly by the State of Maryland	2,208,768	-
Other Operating Expenses	-	119,226
Depreciation	3,260,691	-
Auxiliary Enterprises	4,400,496	-
Total Operating Expenses	57,531,678	119,226
<b>OPERATING INCOME (LOSS)</b>	(39,676,223)	1,081,443
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Certain Fringe Benefits Paid Directly by the State of Maryland	2,208,768	-
Federal Grants and Contracts	7,472,387	-
State of MD Grants and Contracts	11,243,685	-
Harford County Grants and Contracts	15,694,942	-
Contributions from Individuals and Organizations	96,383	-
Contributions from HCC Foundation	804,833	(804,833)
Investment Income (Loss)	26,762	(172,293)
Loss on disposal of assets	(6,905)	-
Net Nonoperating Revenues (Expenses)	37,540,855	(977,126)
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND ADDITIONS TO ENDOWMENTS</b>	(2,135,368)	104,317
State Capital Grants	6,121,351	-
Harford County Capital Grants	11,359,407	-
Contributions for Permanent Endowments	-	162,073
<b>INCREASE IN NET ASSETS</b>	15,345,390	266,390
Net Assets - Beginning of Year	94,091,505	6,835,282
<b>NET ASSETS - END OF YEAR</b>	\$ 109,436,895	\$ 7,101,672

See accompanying Notes to Financial Statements.

**HARFORD COMMUNITY COLLEGE  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2012**

	Harford Community College
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and Fees	\$ 12,244,138
Payments to Suppliers	(15,005,562)
Payments to Employees	(31,949,431)
Auxiliary Enterprise Charges	4,899,681
Other Receipts	996,537
Net Cash Used by Operating Activities	(28,814,637)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Federal Student Loan Programs Receipts	2,848,021
Federal Student Loan Programs Disbursements	(2,848,021)
Federal Grants and Appropriations	7,824,909
State Grants and Appropriations	11,580,485
County Grants and Appropriations	15,686,260
Private Grants and Contributions	846,919
Net Cash Provided by Noncapital Financing Activities	35,938,573
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital Grants Received	14,891,140
Proceeds from Sale of Capital Assets	4,200
Purchase of Capital Assets	(20,594,358)
Net Cash Used by Capital and Related Financing Activities	(5,699,018)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment Income	26,762
Net Cash Provided by Investing Activities	26,762
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,451,680
Cash and Cash Equivalents - Beginning of Year	29,641,389
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 31,093,069</b>
Cash and Cash Equivalents - Current	\$ 24,785,420
Cash and Cash Equivalents - Capital Projects	6,307,649
Total	<b>\$ 31,093,069</b>

See accompanying Notes to Financial Statements.

**HARFORD COMMUNITY COLLEGE  
STATEMENT OF CASH FLOWS (CONTINUED)  
YEAR ENDED JUNE 30, 2012**

	Harford Community College
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (39,676,223)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	3,260,691
Certain Fringe Benefits Paid Directly to the State of Maryland	2,208,768
Changes in Assets and Liabilities:	
Accounts Receivable	1,317,254
Inventories	130,023
Prepaid Expenses	(210,190)
Due from Foundation	(17,995)
Accounts Payable	1,998,862
Retainage Payable	1,751,273
Accrued Salaries	161,330
Accrued Compensated Absences	80,054
Other Accrued Liabilities	(20,312)
Deferred Revenue	71,602
Deposits Held in Custody for Others	130,226
Net Cash Used by Operating Activities	\$ (28,814,637)

See accompanying Notes to Financial Statements.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**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 accounting principles generally accepted in the United States of America.

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, *Determining Whether Certain Organizations Are Component Units*, the Harford Community College Foundation, Inc. is presented in a discrete format.

The Foundation is a private nonprofit organization that follows standards for financial statements for 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.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial Reporting Entity (Continued)**

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

**Basis of Presentation**

The College presents its financial statements in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion Analysis for State and Local Governments*, and No. 35, *Basic Financial Statements and Management's 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 by 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
- Statements of cash flows
- Notes to the financial statements

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/nonoperating 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.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation (Continued)**

Colleges engaged in business-type activities and reporting as BTAs 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 Governmental Entities*, permits such entities to apply all legacy standards 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 any other legacy accounting standards 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 Nonoperating Components**

Financial statement operating components include all transactions and other events that are not defined as capital and related financing, noncapital financing or investing activities. The College's principal ongoing operations determine operating flow activities. Ongoing operations in 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 noncapital financial activities, capital and related financing activities, and investing activities. Noncapital 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 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 include acquiring and disposing of debt or equity instruments.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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. The allowance for doubtful accounts was \$348,582 and \$1,476 at June 30, 2012 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 \$4,838,769 for fiscal year 2012.

**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.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Promises to Give (Continued)**

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, 2012, 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.

**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.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Capital Assets (Continued)**

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

<u>Category</u>	<u>Years</u>
Buildings	45
Computer Technology	5
Library Books	10
Furniture and Equipment	5 – 20
Land Improvements	7 – 20
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, 2012 were \$15,345,802.

**Compensated Absences**

It is the College's policy to allow employees to bank unused annual vacation leave up to a maximum of 10 days. Employees are allowed four months subsequent to fiscal year end to utilize any vacation leave which exceeds this bank amount. 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.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

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 follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. 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). The Foundation follows the accounting standard covering uncertain tax positions. The standard had no financial effect on the Foundation. The Foundation's federal and state tax returns for the years ended June 30, 2009, 2010 and 2011 are open for review by Federal and State authorities.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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 Local 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.

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, 2012, the carrying amount of the College deposits, including petty cash of \$10,208, was \$4,390,584 and the bank balance was \$5,619,135.

At June 30, 2012, the College had \$26,702,485 invested in MLGIP.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)**

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.

**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, 2012, all of the College's non-interest bearing bank balances of \$5,619,135 were insured by the FDIC under the Dodd-Frank Wall Street Reform and Consumer Protection Act.

**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 flow requirements and to preclude the College from having to sell investments below original cost for that purpose. At June 30, 2012, the MLGIP funds had a weighted average maturity of 53 days.

**Credit Risk – Investments**

The College invests in the MLGIP which is under the administration of the State Treasurer. The MLGIP is rated AAAM by Standard & Poor's. 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.

**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, 2012, the College's investments in the MLGIP are not subjected to custodial credit risk.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)**

**Foreign Currency Risk – Investments**

The College's investment policy does not allow for 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, 2012:

	<u>Fair Value</u>	<u>Cost</u>
Cash Equivalents	\$ 222,131	\$ 222,131
Certificates of Deposit	601,869	600,000
Fixed Income Funds	1,871,997	1,800,031
Equity Funds	3,503,918	3,363,568
Total	<u>\$ 6,199,915</u>	<u>\$ 5,985,730</u>

Investment income consists of interest and dividends of \$117,640 net of fees and realized and unrealized losses of \$289,933 for the year ended June 30, 2012.

**NOTE 4 HARFORD COMMUNITY COLLEGE FOUNDATION, INC. – PROMISES TO GIVE**

Promises to give consist of the following at June 30, 2012:

Promises to Give	\$ 818,069
Discount	(176,884)
Total	<u>\$ 641,185</u>
Amounts Due in:	
Less than One Year	\$ 54,810
One to Five Years	286,982
More than Five Years	476,277
Total	<u>\$ 818,069</u>

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 5 RECEIVABLES AND PAYABLES**

Receivables and payables of the College consist of the following at June 30, 2012:

Accounts Receivable:	
Federal Government	\$ 243,647
State of Maryland	3,339,432
Harford County, Maryland	78,126
Student Receivables and Other	927,362
Total	<u>\$ 4,588,567</u>
Accounts Payable:	
Vendors	\$ 3,574,659
Retainage	1,814,065
Total	<u>\$ 5,388,724</u>
Accrued Liabilities:	
Payroll and Payroll Taxes	<u>\$ 946,767</u>

**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, 2012:

	Balance June 30, 2011	Addition	Retirement	Transfer	Balance June 30, 2012
Capital Assets Not Being Depreciated:					
Land	\$ 3,564,162	\$ -	\$ -	\$ -	\$ 3,564,162
Construction in Progress	3,345,542	19,241,395	-	(182,517)	22,404,420
Total Capital Assets Not Being Depreciated	6,909,704	19,241,395	-	(182,517)	25,968,582
Capital Assets Being Depreciated:					
Land Improvements	10,289,745	-	-	-	10,289,745
Buildings	66,947,768	559,195	(7,400)	182,517	67,682,080
Furniture and Equipment	4,963,797	172,425	(116,050)	-	5,020,172
Computer Technology	4,904,484	371,766	(661,026)	-	4,615,224
Vehicles	456,894	150,589	(12,103)	-	595,380
Library Books	1,928,696	98,988	(386,690)	-	1,640,994
Total Capital Assets Being Depreciated	89,491,384	1,352,963	(1,183,269)	182,517	89,843,595
Less Accumulated Depreciation:					
Land Improvements	3,626,069	332,575	-	-	3,958,644
Buildings	17,640,365	2,178,307	(2,550)	-	19,816,122
Furniture and Equipment	3,455,378	314,172	(115,848)	-	3,653,702
Computer Technology	4,011,693	350,619	(661,026)	-	3,701,286
Vehicles	322,817	51,054	(6,051)	-	367,820
Library Books	1,687,138	33,964	(386,690)	-	1,334,412
Total Accumulated Depreciation	30,743,460	3,260,691	(1,172,165)	-	32,831,986
Total Capital Assets, Net	<u>\$ 65,657,628</u>	<u>\$ 17,333,667</u>	<u>\$ (11,104)</u>	<u>\$ -</u>	<u>\$ 82,980,191</u>

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 7 COMPENSATED ABSENCES**

Compensated absences activity for the year ended June 30, 2012 is as follows:

	Balance June 30, 2011	Addition	Retirement	Balance June 30, 2012	Balance Due Within Year
Compensated Absences	\$ 1,089,332	\$ 130,672	\$ (50,618)	\$ 1,169,386	\$ 73,868

**NOTE 8 OPERATING LEASES**

The College has entered into lease agreements for office equipment and office space that are accounted for as operating leases. Minimum future lease payments under these agreements as of June 30, 2012 are as follows:

Year Ending June 30,	Amount
2013	\$ 262,555
2014	258,019
2015	247,053
2016	30,805

Total rent expense for the year ended June 30, 2012 was \$280,744.

**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

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 9 RETIREMENT PLANS (CONTINUED)**

During the 1979 legislative session, the Maryland General Assembly created, effective January 1, 1980, The 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, and non-certified positions were members of The Employees' Retirement System of 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-certified 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.

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 7% of their gross salary. Effective January 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 \$82,281 and contributions by the State of Maryland to the Maryland Retirement Pension System on behalf of the College totaling \$1,807,033, or 15.45% of covered payroll for fiscal year 2012, were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of July 1, 2011. Additional contributions were made by the State of Maryland to the Optional Retirement System on behalf of the College totaling \$401,735, or 7% of covered payroll for fiscal year 2012. Total annual pension costs contributed by the State of Maryland and included within the chart below are \$2,208,768 for fiscal year 2012.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 9 RETIREMENT PLANS (CONTINUED)**

**Annual Pension Cost (Continued)**

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
2010	1,930,668	56,352	1,874,316	100.00%	-
2011	2,127,253	78,539	2,048,714	100.00%	-
2012	2,291,049	82,281	2,208,768	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, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*.

**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, 2012, there were 8 eligible and participating retirees receiving an annual subsidy. The Plan does not issue a stand-alone financial report.

As of June 30, 2012, there were 57 participants out of 331 total participants receiving benefits.

**Funding Policy**

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

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 10 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

**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 obligation.

Annual Required Contribution	\$	92,000
Interest on Net OPEB Obligation		(5,000)
Adjustment to Annual Required Contribution		5,000
Annual OPEB Cost (Expense)		92,000
Contributions Made		(86,000)
Increase in Net OPEB Obligation		6,000
Net OPEB Obligation - Beginning of Year		114,221
Net OPEB Obligation - End of Year	\$	120,221

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2012, 2011 and 2010 were as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 92,000	93.5%	\$ 120,221
2011	67,000	53.7%	114,221
2010	67,000	53.7%	83,234

**Funding Status and Funding Progress**

As of July 1, 2011, the most recent actuarial valuation date, the unfunded actuarial accrued liability (UAAL) was \$1,020,000. The covered payroll (annual payroll of active employees covered by the plan) was \$14,877,295, and the ratio of the UAAL to the covered payroll was 6.9%.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 10 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

**Funding Status and Funding Progress (Continued)**

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 July 1, 2011 actuarial valuation, the Projected Unit Credit method, with linear proration to assumed benefit commencement, was used. The actuarial assumption includes a 4.0% investment rate of return based upon the continuation of funding on a pay-as-you-go basis and the general fund investments can earn 4.0% over the long term. The UAAL is being amortized over 30 years beginning July 1, 2007 using a 30-year amortization as a level dollar amount. The remaining amortization period at July 1, 2011 was 26 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, 2012, the College had amounts on deposit with the trustee of the Consortium totaling \$666,972. To the extent that claims and administration costs exceed premiums paid, the College is responsible for the excess but not more than 7% of premiums paid. Any claims in excess of 107% of premiums are covered by additional insurance. An accrual of \$299,782 for the self-insured portion is netted against the deposit in the statement of net assets. A reconciliation of the activity of the deposit is set forth as follows:

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 11 RISK MANAGEMENT (CONTINUED)**

Fiscal Year Ended June 30,	Beginning Balance (Net)	Premium	Incurred/ Estimated Expenses	Interest/ Other Income	Withdrawal	Change in Liability for 5-7% of Premiums Paid	Ending Balance (Net)
2012	\$1,901,153	\$4,282,598	\$ 4,171,575	\$1,453	\$(1,250,000)	\$ 96,657	\$ 666,972
2011	1,543,585	4,062,507	3,699,523	2,412	-	7,947	1,901,153

**NOTE 12 RELATED PARTY TRANSACTIONS**

During the year ended June 30, 2012, the Foundation distributed \$804,833 to the College for both restricted and unrestricted purposes. The Foundation paid the College \$28,920 for management fees for the fiscal year 2012. In addition, the College paid, on behalf of the Foundation, a percentage of various overhead-related expenditures totaling approximately \$25,340 for the year ended June 30, 2012.

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, 2012:

Technology	\$ 88,217
Loans	69,520
Total	<u>\$ 157,737</u>

The technology restricted (expendable) net assets represent funds received as part of the State's Innovative Partnerships for Technology Program. Technology is defined in the law to mean any hardware, software, communications infrastructure, and associated training and contracted services that enable local or global presentation, exchange, and transmission of information in digital or analog form for teaching, learning, student support services, and administration. The definition of technology includes capital expenditures but does not include staff.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 14 HARFORD COMMUNITY COLLEGE FOUNDATION, INC. – RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following as of June 30, 2012:

Endowment Investments and Earnings Restricted for:	
Scholarships	\$ 1,402,444
Other	52,087
Contributions Restricted for:	
Equipment and Programs	792,778
Scholarships	1,266,082
Loan Fund	158,296
Total	<u>\$ 3,671,687</u>

Permanently restricted net assets at June 30, 2012 are restricted in perpetuity with income available to support the following purposes:

Scholarships	\$ 2,859,229
General Purpose	310,000
Specific Programs	3,150
Total	<u>\$ 3,172,379</u>

**NOTE 15 RECENT GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) PRONOUNCEMENTS**

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The requirements of this Statement are effective for the fiscal year ending June 30, 2013 with retroactive application for all periods presented. Statement No. 60 addresses how to account for and report service concession arrangements, a type of public-private or public-public partnership that state and local governments are increasingly entering into. The College has not determined the effect of GASB Statement No. 60 on the financial statements.

In December 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. The requirements of this Statement are effective for the fiscal year ending June 30, 2013. Statement No. 61 places an increased emphasis on a financial benefit or burden relationship between a primary government and component units. The College has not determined the effect of GASB Statement No. 61 on the financial statements.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 15 RECENT GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)  
PRONOUNCEMENTS (CONTINUED)**

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The requirements of this Statement are effective for the fiscal year ending June 30, 2013. Statement No. 62 incorporates into the GASB's authoritative literature certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989 which do not conflict with or contradict GASB pronouncements. Statement No. 62 will have no impact on the College's financial statements.

In July 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The requirements of this Statement are effective for the fiscal year ending June 30, 2013. Statement No. 63 provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. The College has not determined the effect of GASB Statement No. 63 on the financial statements.

In July 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. The requirements of this Statement are effective for the fiscal year ending June 30, 2012. Statement No. 64 clarifies the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. Statement No. 64 had no impact on the College's financial statements.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The requirements of this Statement are effective for the fiscal year ending June 30, 2014. Statement No. 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The College has not determined the effect of GASB Statement No. 65 on the financial statements.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. The requirements of this Statement are effective for the fiscal year ending June 30, 2014. Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The College has not determined the effect of GASB Statement No. 66 on the financial statements.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 15 RECENT GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)  
PRONOUNCEMENTS (CONTINUED)**

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* and Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The requirements of Statement No. 67 are effective for the fiscal year ending June 30, 2014. The requirements of Statement No. 68 are effective for the fiscal year ending June 30, 2015. These Statements require governments providing defined benefit pension plans to (1) recognize their long-term obligation for pension benefits as liabilities on the balance sheet, (2) more comprehensively and comparably measure the annual costs of pension benefits, and (3) enhance disclosures and Required Supplementary Information for pension plans. The College has not determined the effect of GASB Statements No. 67 and No. 68 on the financial statements.

**NOTE 16 COMMITMENTS AND CONTINGENCIES**

The College has outstanding commitments for the following ongoing capital projects as of June 30, 2012:

Susquehanna Center Renovation	\$ 13,147,730
Water and Wastewater	875,132
Nursing and Allied Health Building	621,576
Other Projects	75,410
Total	<u>\$ 14,719,848</u>

Funding for the Susquehanna Center renovation and the new Nursing and Allied Health building is primarily being generated through County and State grants.

As of the audit date, the College was named in a legal action. This claim is being defended vigorously by counsel. The College believes the outcome of this claim will have no significant effect on the College's financial position or results of operations and therefore has not included any provision for loss within these financial statements.

In July 2012, the College entered into a 20 year solar power purchase agreement with Tecta Solar Harford, LLC ("Tecta"). Tecta will furnish, install, maintain and own four roof mounted solar electric generating facilities at the College. The College has agreed to purchase all of the electricity produced by these solar facilities according to the terms as set forth in the agreement with Tecta. In the event of default by the College, Tecta is entitled to terminate the agreement and recover a prescribed termination payment for the applicable billing year. The termination payment that would be required in year 1 would be \$3,240,169.

**HARFORD COMMUNITY COLLEGE  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
JUNE 30, 2012  
(UNAUDITED)**

**Schedule of Funding Progress**

Actuarial Valuation Date July 1,	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	\$0	\$ 905,610	\$ 905,610	0%	\$ 15,076,279	6.0 %
2011	-	1,020,000	1,020,000	0%	14,877,295	6.9 %

**HARFORD COMMUNITY COLLEGE  
BUDGETARY COMPARISON SCHEDULE  
GENERAL OPERATING FUND  
YEAR ENDED JUNE 30, 2012**

	(Unaudited) Budgeted Amounts	Actual (Budgetary Basis)	Variance with Budget Favorable (Unfavorable)
<b>REVENUES</b>			
Tuition and Fees	\$ 17,163,743	\$ 16,768,853	\$ (394,890)
State of Maryland	9,719,168	9,719,168	-
Harford County, MD	14,961,612	14,961,612	-
Investment Income	38,605	26,762	(11,843)
Other Revenue	981,153	1,103,279	122,126
Total Revenues	<u>42,864,281</u>	<u>42,579,674</u>	<u>(284,607)</u>
<b>EXPENDITURES</b>			
Instruction	17,939,481	17,152,372	787,109
Academic Support	6,345,815	6,076,463	269,352
Student Services	4,831,104	4,661,720	169,384
Institutional Support	8,133,386	7,848,281	285,105
Operations of Plant	4,699,489	4,308,231	391,258
Scholarships and Fellowships	1,036,500	868,017	168,483
Transfers	3,319,225	3,319,225	-
Total Expenditures	<u>46,305,000</u>	<u>44,234,309</u>	<u>2,070,691</u>
<b>OPERATING SURPLUS (DEFICIT)</b>	<u>\$ (3,440,719)</u>	<u>\$ (1,654,635)</u>	<u>\$ 1,786,084</u>

This General Operating Fund Budgetary Comparison Schedule does not include fiscal year 2012 encumbrances that represent commitments in the amount of \$451,139.

The College transfers amounts from the general operating fund balance to offset any deficit incurred for the year.



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

Board of Trustees  
Harford Community College  
Bel Air, Maryland

We have audited the financial statements of Harford Community College (the College), as of and for the year ended June 30, 2012, and have issued our report thereon dated August 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of the College is responsible for establishing and maintaining effective 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 deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

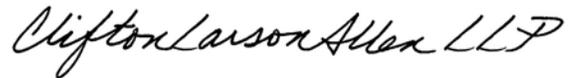
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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*.

We noted certain matters that we reported to management of the College in a separate letter dated August 30, 2012.

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



**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
August 30, 2012



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees  
Harford Community College  
Bel Air, Maryland

**COMPLIANCE**

We have audited Harford Community College's (the College) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on the College's major federal program for the year ended June 30, 2012. 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 Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the College's compliance with those requirements.

In our opinion, the College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

**INTERNAL CONTROL OVER COMPLIANCE**

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

Board of Trustees  
Harford Community College

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
August 30, 2012

**HARFORD COMMUNITY COLLEGE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA* Number	Grantor's Number	Grant Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<b>Direct Awards:</b>			
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Grants	84.007	N/A	\$ 66,255
Federal Work-Study Program	84.033	N/A	129,878
Federal Pell Grant Program	84.063	N/A	6,884,199
Federal Direct Loan Program	84.268	N/A	2,848,021
Total Student Financial Assistance Cluster			<u>9,928,353</u>
<b>Administered through the Maryland State Department of Education (MSDE):</b>			
Voc. Ed. Act - Adult Education Title IIA:			
Career and Technical Education - Basic Grants to States:			
DCTE Spec Pop Program Improvements 11	84.048	115421	150,940
Tech-Prep Education	84.243	124725	1,586
Adult Basic Education Act:			
Adult Basic Education	84.002A	P00B2400047	164,997
Total Federal Programs Administered through the MSDE			<u>317,523</u>
Total U.S. Department of Education			<u>10,245,876</u>
<b>U.S. SMALL BUSINESS ADMINISTRATION</b>			
Administered through Maryland Small Business Development:			
Small Business Development Centers	59.037	Z974704	37,960
Small Business Development Centers	59.037	Q002301	129,115
Total U.S. Small Business Administration			<u>167,075</u>
<b>U.S. DEPARTMENT OF LABOR</b>			
Administered through Susquehanna Workforce:			
Susquehanna Workforce Network Youth Program	17.259	P116Z080033	65,215
Total U.S. Department of Labor			<u>65,215</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Child and Career and Professional Development	93.575	124489	41,660
Total U.S. Department of Health and Human Services			<u>41,660</u>
<b>NATIONAL ENDOWMENT FOR THE HUMANITIES</b>			
Making Sense of the American Civil War	45.164	LJ-50013-11	3,000
Total National Endowment for the Humanities			<u>3,000</u>
<b>NATIONAL SCIENCE FOUNDATION</b>			
Information Assurance Project	47.076	09-CC02-006	6,527
Total National Science Foundation			<u>6,527</u>
Total Federal Awards Expended			<u>\$ 10,529,353</u>

\*CFDA - Catalog of Federal Domestic Assistance

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**HARFORD COMMUNITY COLLEGE  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2012**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

**HARFORD COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012**

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

1. The auditors' report expresses an unqualified opinion on the financial statements of Harford Community College.
2. No material weaknesses or significant deficiencies were identified and disclosed during the audit of the financial statements of Harford Community College.
3. No instances of material noncompliance were identified during the audit of the financial statements of Harford Community College.
4. No material weaknesses or significant deficiencies were identified during the audit of the major federal award programs of Harford Community College.
5. The auditors' report on compliance for the major federal award programs for Harford Community College expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for Harford Community College are reported in Part C of this schedule.
7. The programs tested as major programs include:

Program	CFDA Number
Student Financial Aid Cluster	Various

8. The threshold for distinguishing type A and B programs was \$300,000.
9. Harford Community College was determined to be a low risk auditee.

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**NONE**

**HARFORD COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012**

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT**

**CURRENT YEAR**

**NONE**

**PRIOR YEAR**

**NOT APPLICABLE**