

HARFORD COMMUNITY COLLEGE
COMPONENT UNIT FINANCIAL STATEMENTS
AND
SINGLE AUDIT COMPLIANCE REPORTS
YEAR ENDED JUNE 30, 2014

**HARFORD COMMUNITY COLLEGE
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Harford Community College
Bel Air, Maryland

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 16 to the financial statements, the College implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65 – *Items Previously Reported as Assets and Liabilities*, and GASB Statement No. 66 – *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, for the year ended June 30, 2014, which represents a change in accounting principle. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis on pages 4-13 and the Schedule of Funding Progress on page 38 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College’s basic financial statements. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the Budgetary Comparison Schedule – General Operating Fund are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

The Budgetary Comparison Schedule – General Operating Fund has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2014, 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 result 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* in considering the College's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
August 29, 2014

HARFORD COMMUNITY COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2014

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, 2014. 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 Position; the Statement of Revenues, Expenses, and Changes in Net Position; 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 Position

The Statement of Net Position is a financial statement that provides a fiscal snapshot of the institution's financial position at a selected point in time. Total net position represents the difference between total assets and total liabilities and is one of the indicators of the current financial condition of the College. Readers of the Statement of Net Position are able to determine the assets available to continue the operations of the College. Over time, changes in net position 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, 2014, 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 position is divided into four major categories:

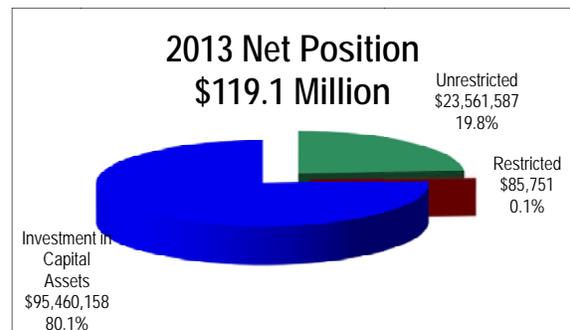
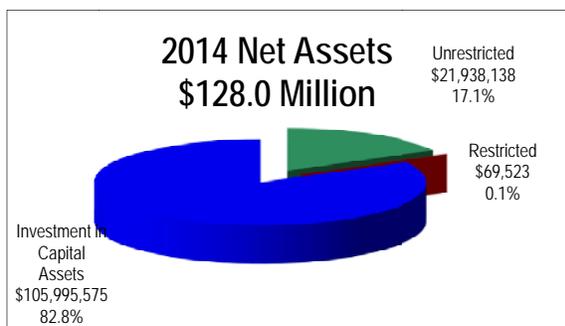
- Unrestricted - available to the College for any lawful purpose.
- Net Investment in Capital assets - the College's ownership equity in property, plant and equipment, net of related debt.
- Expendable restricted - available to be spent by the College after externally imposed stipulations have been fulfilled or after the passage of time.
- Nonexpendable restricted - 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, 2014**

CONDENSED STATEMENT OF NET POSITION

	<u>June 30, 2014</u>	<u>% of total</u>	<u>June 30, 2013</u>	<u>% of total</u>
Assets				
Current Assets	\$ 25,908,787	18.8%	\$ 25,972,957	20.5%
Noncurrent Assets:				
Capital Assets	106,627,020	77.3%	95,460,158	75.4%
Other Assets	5,399,278	3.9%	5,136,005	4.1%
Total Noncurrent Assets	<u>112,026,298</u>	<u>81.2%</u>	<u>100,596,163</u>	<u>79.5%</u>
Total Assets	137,935,085	100.0%	126,569,120	100.0%
Liabilities				
Current Liabilities	8,707,438	87.7%	6,251,649	83.8%
Noncurrent Liabilities	<u>1,224,411</u>	<u>12.3%</u>	<u>1,209,975</u>	<u>16.2%</u>
Total Liabilities	9,931,849	100.0%	7,461,624	100.0%
Net Position				
Net Investment in Capital Assets	105,995,575	82.8%	95,460,158	80.1%
Restricted	69,523	0.1%	85,751	0.1%
Unrestricted	<u>21,938,138</u>	<u>17.1%</u>	<u>23,561,587</u>	<u>19.8%</u>
Total Net Position	<u>\$ 128,003,236</u>	<u>100.0%</u>	<u>\$ 119,107,496</u>	<u>100.0%</u>

Fiscal Year 2014 compared to 2013. Net position increased \$8.9 million from \$119.1 million in FY 2013 to \$128.0 million in 2014. Current assets decreased by \$0.1 million. Current assets consist primarily of cash and cash equivalents and accounts receivable, which include funds due for federal aid and for state funding of capital project expenses. Accounts Receivable increased \$2.8 million primarily due to the \$2.3M that is due from the state for the Nursing and Allied Health building capital project. This accounts receivable increase is offset by a \$2.8 million reduction in cash and cash equivalents. Current liabilities consist of accounts payable, accrued liabilities and unearned revenue, plus deposits held for students who made early payments of FY 2014 tuition and fees. The change in current liabilities is the result of a \$1.1 million increase in accounts payable to vendors, a \$0.6 million increase in the retainage payable for construction contracts related to the new Nursing and Allied Health building, and a \$0.3 million increase in accrued liabilities due to a higher payroll accrual.



The unrestricted net position includes the fund balances transferred to plant fund budgets for existing programs that are anticipated or in progress along with auxiliary service fund balances generated through operations.

**HARFORD COMMUNITY COLLEGE
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JUNE 30, 2014**

Currently, designations of \$7.8 million are budgeted within the plant funds for various capital programs such as the Hickory addition (Plant Services Annex), parking improvements, roof replacements, and computer equipment and technology.

Restricted net position consists of Russell Hudson student loans. The decrease in unrestricted net position is a result of capital expenditures funded by the College coupled with a \$1.4 million operating deficit in the General Fund for FY 2014.

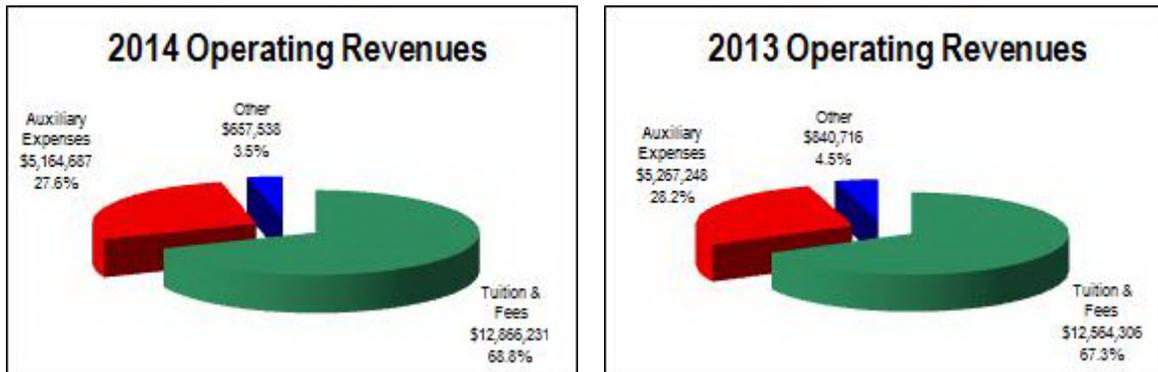
Statement of Revenues, Expenses and Changes in Net Position

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended June 30,		Percent
	2014	2013	Change
OPERATING REVENUE			
Tuition and Fees	\$ 12,866,231	\$ 12,564,306	2.4%
Auxiliary Enterprises	5,164,687	5,267,248	-1.9%
Other	657,538	840,716	-21.8%
Total Operating Revenue	<u>18,688,456</u>	18,672,270	0.1%
OPERATING EXPENSES	<u>59,832,739</u>	60,136,109	-0.5%
Net Operating Loss	<u>(41,144,283)</u>	<u>(41,463,839)</u>	-0.8%
NONOPERATING REVENUES (EXPENSES)			
Certain Fringe Benefits Paid Directly by the State of Maryland	2,277,578	1,755,939	29.7%
State Grants and Contracts	12,182,294	11,568,349	5.3%
Federal Grants and Contracts	7,242,785	7,862,729	-7.9%
Local Grants and Contracts	15,667,598	15,712,002	-0.3%
Contributions	750,591	1,049,920	-28.5%
Interest Income	12,863	29,629	-56.6%
Loss on Disposal of Assets	(247,665)	(363,588)	-31.9%
Total Nonoperating Revenues	<u>37,886,044</u>	37,614,980	0.7%
Loss Before Other Revenues	<u>(3,258,239)</u>	<u>(3,848,859)</u>	-15.3%
State Capital Grants	5,887,386	12,237,607	-51.9%
Harford County Capital Grants	<u>6,266,593</u>	<u>1,281,853</u>	388.9%
INCREASE IN NET POSITION	8,895,740	9,670,601	-8.0%
NET POSITION, BEGINNING OF YEAR	<u>119,107,496</u>	109,436,895	8.8%
NET POSITION, END OF YEAR	<u><u>\$ 128,003,236</u></u>	<u><u>\$ 119,107,496</u></u>	7.5%

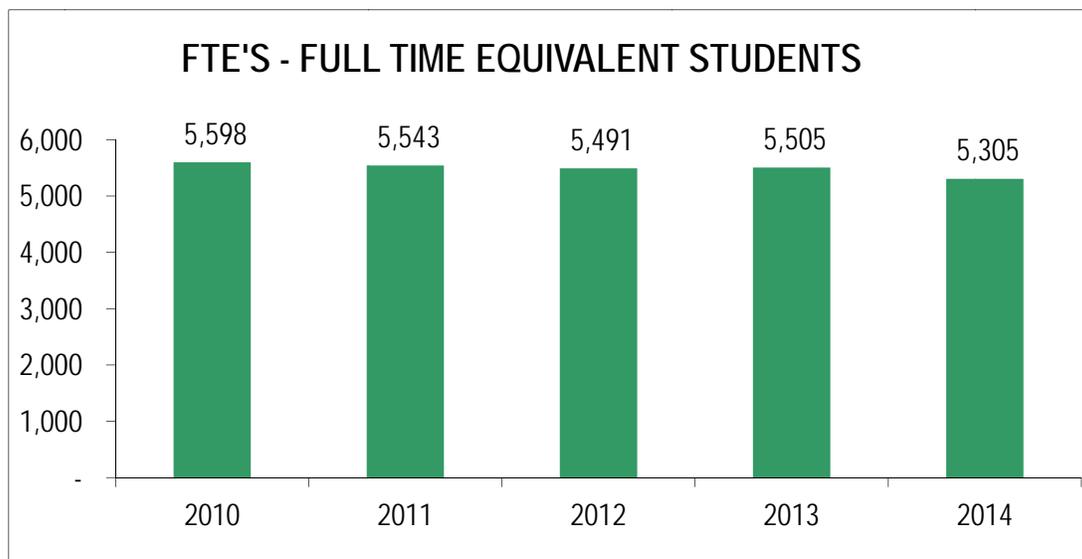
**HARFORD COMMUNITY COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2014**



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

Fiscal Year 2014 compared to 2013. Net position increased \$8.9 million or 7.5% for 2014. This increase was generated mainly through the \$5.9 million in state revenue and \$6.3 million in county revenue for the Nursing and Allied Health Building. These state and county capital revenues were partially offset by the \$3.3 million loss before capital contributions. In FY 2014, the College received flat operating funding from the county and a \$0.4 million increase from the state. Auxiliary enterprise revenues and expenses both decreased \$0.1 million. This was driven by the College Store producing less textbook sales and rental revenue.

Net tuition and fees increased 2.4% primarily due to the increase in tuition of \$5 per credit hour. Scholarship allowances in 2014 are \$5,202,394 or 28.8% of gross tuition and fee revenue, which is a decrease of 0.7% from 2013 scholarship allowances of \$5,240,856 or 29.4% of gross tuition and fee revenue. Despite the slight decrease in scholarship allowances, this analysis continues to show that a significant portion of the College's students receive federal or some other form of financial assistance.



**HARFORD COMMUNITY COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2014**

The full-time equivalent (FTE) student enrollment decreased by 200 or 3.6%. Credit FTE students decreased by 148 while Non-credit FTE students decreased by 52.

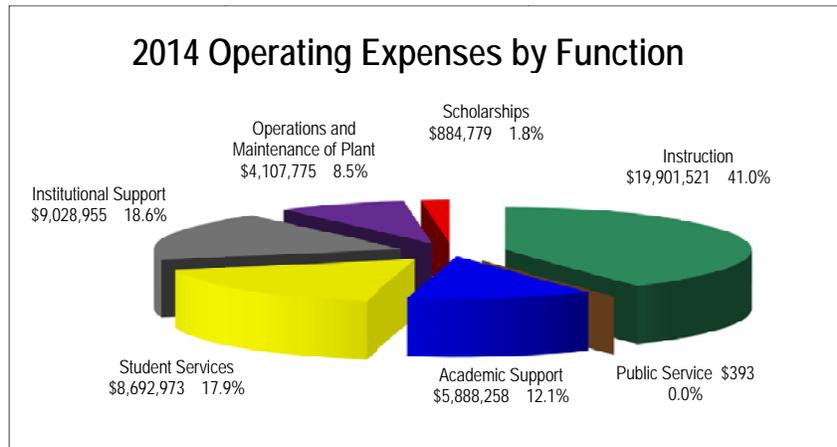
Analyzing operating and non-operating revenues together for 2014, tuition and fees net of scholarship allowances, comprise 22.6% of total revenues. State and county funding, including the state payment for retirement, provided an additional 53.0% of operating and non-operating revenues. Federal funding decreased 7.9% from 2013 to account for 12.7% of total 2014 revenues. The revenue from auxiliary enterprises decreased 1.9% from 2013 to account for 9.1% of total 2014 revenues.

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

OPERATING EXPENSES

	Years Ended June 30, 2014	2013	Percent Change
OPERATING EXPENSES			
Instruction	\$ 19,901,521	\$ 19,426,873	2.4%
Public Service	393	1,333	-70.5%
Academic Support	5,888,258	6,079,308	-3.1%
Student Services	8,692,973	9,610,677	-9.5%
Institutional Support	9,028,955	8,472,506	6.6%
Operations and Maintenance of Plant	4,107,775	5,052,492	-18.7%
Scholarships	884,779	935,360	-5.4%
Sub-Total	48,504,654	49,578,549	-2.2%
Auxiliary Enterprises	4,970,953	5,149,306	-3.5%
Certain Fringe Benefits Paid Directly by the State of Maryland	2,277,578	1,755,939	29.7%
Depreciation	4,079,554	3,652,315	11.7%
TOTAL	<u>\$ 59,832,739</u>	<u>\$ 60,136,109</u>	<u>-0.5%</u>

**HARFORD COMMUNITY COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2014**



Instruction accounts for 41.0% 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 2.4% primarily due to the 2.0% employee salary adjustments.

The decrease in Academic Support expenditures is driven by the Marketing website redesign costs in FY 2013 along with a reduction in Computer and Technology Services (CTS) labor, contracted services and software maintenance charged to this program.

The decline in Student Services expenditures can be primarily attributed to the decrease in Pell grants that were awarded to students in FY 2014. These Pell grant expenditures are offset by the corresponding decline in Federal grants and contracts non-operating revenue.

The increase in the Institutional Support program can be attributed to an increase in insurance premiums, bad debt expense, and salary adjustments.

Operations and Maintenance of Plant decreased primarily due to a significant reduction in restricted expenses within the capital project funds. These restricted expenses were not capitalized and were incurred in FY 2013 in conjunction with the Susquehanna Center renovation and the construction of the Aberdeen Proving Ground Federal Credit Union Arena.

Scholarships which consist mainly of tuition waivers decreased slightly due to the enrollment decrease the College experienced in FY 2014.

Auxiliary enterprise expenditures decreased due to favorable margins produced at the College Store through inventory management strategies.

Other major components of operating expenses include: the \$2,277,578 that represents the state's contribution for college employees to the Maryland state retirement system and the recognition of \$4,079,554 in depreciation on capital assets.

**HARFORD COMMUNITY COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2014**

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 position.

	CASH FLOWS		
	Years Ended June 30,		Percent
	2014	2013	Change
Cash Provided By (Used In):			
Operating Activities	\$ (32,619,911)	\$ (38,936,907)	-16.2%
Noncapital Financing Activities	35,711,853	35,965,584	-0.7%
Capital and Related Financing Activities	(5,918,495)	(796,479)	643.1%
Investing Activities	12,863	29,629	-56.6%
Net Increase (Decrease) in Cash	(2,813,690)	(3,738,173)	-24.7%
 CASH, BEGINNING OF YEAR	 27,354,896	 31,093,069	 -12.0%
 CASH, END OF YEAR	 \$ 24,541,206	 \$ 27,354,896	 -10.3%

The primary cash receipts from operating activities consist of \$13,049,822 from tuition and fees and \$5,144,581 from auxiliary enterprises. Major cash outlays in operating activities consist of salaries and benefits of \$33,773,848 and payments to suppliers of \$17,698,004. The decrease in payments to suppliers of \$6,102,579 is driving the 16.2% decrease in cash used in operating activities.

Federal, state and local funding is the primary source of noncapital 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. Cash provided by noncapital financing activities decreased 0.7%. This decrease is primarily attributed to a \$365,872 reduction in the cash provided by federal financial aid grants and appropriations.

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 \$796,479 in 2013 to \$5,918,495 in 2014. The College has transferred funds from the general fund balance that were utilized for FY 2014 capital project expenditures. The College has also made appropriate outlay for certain capital purchases with the understanding that

**HARFORD COMMUNITY COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2014**

reimbursement by the state will follow in the subsequent year. Capital expenditures incurred in the construction of the new Nursing and Allied Health building is responsible for the majority of the outlay.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2014, the College had \$144.0 million invested in capital assets, including \$13.8 million in construction in progress, less accumulated depreciation of \$37.4 million. Depreciation charges for the current year totaled \$4.1 million.

CAPITAL ASSETS, NET

	June 30, 2014	2013	Percent Change
CAPITAL ASSETS			
Land and Land Improvements	\$ 20,055,802	\$ 17,971,259	11.6%
Buildings	99,121,263	99,251,284	-0.1%
Furniture and Equipment	4,941,954	5,334,646	-7.4%
Computer Technology	3,765,893	4,245,710	-11.3%
Vehicles	759,348	671,215	13.1%
Library Books	1,550,296	1,497,181	3.5%
Construction in Progress	13,849,994	1,156,392	1097.7%
Total	<u>144,044,550</u>	<u>130,127,687</u>	10.7%
Less: Accumulated Depreciation	<u>37,417,530</u>	<u>34,667,529</u>	7.9%
NET CAPITAL ASSETS	<u><u>\$ 106,627,020</u></u>	<u><u>\$ 95,460,158</u></u>	<u>11.7%</u>

Land improvements increased \$2.1 million due to the capitalization of the new artificial turf baseball field at the Harford Sports Complex. Construction in progress increased \$12.7 due to the capital expenses incurred during the year for the construction of the new Nursing and Allied Health Building.

Debt

The College has no long-term debt as of June 30, 2014.

Economic Factors That Will Affect the Future

The College's operating funds come primarily from three revenue sources: tuition and fee payments from students, and funding appropriations from Harford County and the State of Maryland. Historically, tuition has covered approximately one-third of operating costs. In FY 2009, budgeted tuition and fees revenue and unrestricted county and state appropriations accounted for 32% and 64%, respectively, of revenues within the College's General Fund. This strong financial support from both the county and the state enabled the College to provide higher education at a substantially lower tuition than many other colleges in the state.

**HARFORD COMMUNITY COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2014**

Economic pressures at both the state and county level have resulted in public funding reductions beginning in FY 2008. Currently, in FY 2014, General Fund revenue is comprised of 40% tuition and fees revenue and 59% county and state appropriations. Total county funding in FY 2014 is approximately \$1 million below the funding received in FY 2009, despite significant increases in enrollment that occurred during the period. The schedule below illustrates the FY 2014 revenue and program spending within the General Fund:

**FY 2014 BUDGETARY COMPARISON SCHEDULE
GENERAL OPERATING FUND**

	Original FY 2014 Budget	FY 2014 Actual	Variance - Favorable (Unfavorable)
REVENUES			
Tuition and Fees	\$ 18,181,704	\$ 17,142,783	\$ (1,038,921)
State of Maryland	10,345,648	10,345,648	-
Harford County, MD	14,961,612	14,961,612	-
Other Revenue	680,764	524,680	(156,084)
Total Revenues	<u>44,169,728</u>	<u>42,974,723</u>	<u>(1,195,005)</u>
EXPENDITURES			
Instruction	18,946,041	17,991,721	954,320
Academic Support	6,582,861	5,873,175	709,686
Student Services	5,339,631	4,968,136	371,495
Institutional Support	8,747,888	8,707,088	40,800
Operations of Plant	4,697,800	4,454,221	243,579
Scholarships and Fellowships	1,068,094	884,779	183,315
Transfers	1,637,421	1,534,989	102,432
Total Expenditures	<u>47,019,736</u>	<u>44,414,109</u>	<u>2,605,627</u>
OPERATING SURPLUS (DEFICIT)	<u>\$ (2,850,008)</u>	<u>\$ (1,439,386)</u>	<u>\$ 1,410,622</u>

In addition to this change in this “mix” of revenue sources, the College has developed an unbalanced Operating Budget that requires a transfer-in from the fund balance to offset the operating deficit. In FY 2014, the College had a \$1.4 million operating deficit. This operating deficit has resulted due to not increasing the rate of tuition quickly enough to offset the public funding reductions in recent years.

As the College cannot influence the various economic variables which ultimately affect the public support it receives, HCC administration has taken action to develop a strategy to ensure additional tuition and fee revenue in future years. The College’s Board of Trustees approved a \$12 tuition increase for FY 2015. Even with this increase, further escalation is likely as the credit hour tuition and fees rate is still well below the state average for community colleges. The current plan has the College eliminating the structural deficit by FY 2017 through additional tuition increases.

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. The College experienced relatively flat enrollment numbers in both FY 2012 and FY 2013. In FY 2014, credit

**HARFORD COMMUNITY COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2014**

enrollment decreased by approximately 3.5%. Early indications are that it will be a challenge to maintain FY 2014 enrollment levels in FY 2015. The College budgeted a 3% decline in enrollment for FY 2015. A Strategic Management Committee that is comprised of various key College personnel is in the process of adopting a new Enrollment Management Plan that will be designed to oppose this challenge.

Deferred maintenance will continue to be a very important issue in future years due to the aging of buildings and other capital assets on campus. The College currently has certain unrestricted funds designated for improvements such as roof replacements and the resurfacing of parking lots. Further, the College responded during FY 2013 by also 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.

Requests for Information

The financial report is designed to provide a general overview of the College's finances. Questions concerning any of the information provided in this report or other requests for additional information should be addressed to the Harford Community College Finance Office.

**HARFORD COMMUNITY COLLEGE
STATEMENT OF NET POSITION
JUNE 30, 2014**

	Harford Community College	Component Unit Harford Community College Foundation
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 19,141,928	\$ 618,190
Accounts Receivable, Net	5,439,325	-
Promises to Give, Net	-	700,470
Inventories	599,687	-
Prepaid Expenses and Other Assets	536,669	51,938
Due from Foundation	140,683	-
Deposit with Trustee	50,495	-
Total Current Assets	25,908,787	1,370,598
Noncurrent Assets:		
Cash and Cash Equivalents, Capital Projects	5,399,278	-
Investments	-	7,734,520
Land and Construction in Progress	17,414,157	-
Capital Assets being Depreciated	126,630,392	-
Less: Accumulated Depreciation	(37,417,529)	-
Total Noncurrent Assets	112,026,298	7,734,520
Total Assets	137,935,085	9,105,118
LIABILITIES		
Current Liabilities:		
Accounts Payable	2,872,398	-
Retainage Payable	631,445	-
Accrued Liabilities	1,411,663	-
Deposits Held for Students	488,424	-
Unearned Revenue	3,090,216	17,200
Compensated Absences, Current	99,002	-
Due to College	-	140,683
Other Liabilities	114,290	-
Total Current Liabilities	8,707,438	157,883
Noncurrent Liabilities:		
Other Post-Employment Benefits	158,221	-
Compensated Absences, Net of Current Portion	1,066,190	-
Total Noncurrent Liabilities	1,224,411	-
Total Liabilities	9,931,849	157,883
NET POSITION		
Unrestricted	21,938,138	401,440
Net Investment in Capital Assets	105,995,575	-
Restricted:		
Expendable	69,523	5,291,578
Nonexpendable	-	3,254,217
Total Net Position	\$ 128,003,236	\$ 8,947,235

See accompanying Notes to Financial Statements.

HARFORD COMMUNITY COLLEGE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2014

	<u>Harford Community College</u>	<u>Component Unit Harford Community College Foundation</u>
OPERATING REVENUES		
Student Tuition and Fees (Net of Scholarship Allowances of \$5,202,394)	\$ 12,866,231	\$ -
Gifts and Contributions	-	949,795
Auxiliary Enterprises	5,164,687	-
Other Operating Revenues	<u>657,538</u>	<u>-</u>
Total Operating Revenues	18,688,456	949,795
OPERATING EXPENSES		
Instruction	19,901,521	-
Public Service	393	-
Academic Support	5,888,258	-
Student Services	8,692,973	-
Institutional Support	9,028,955	-
Operations and Maintenance of Plant	4,107,775	-
Scholarship Expense	884,779	-
Certain Fringe Benefits Paid Directly by the State of Maryland	2,277,578	-
Other Operating Expenses	-	212,030
Depreciation	4,079,554	-
Auxiliary Enterprises	<u>4,970,953</u>	<u>-</u>
Total Operating Expenses	<u>59,832,739</u>	<u>212,030</u>
OPERATING INCOME (LOSS)	(41,144,283)	737,765
NONOPERATING REVENUES (EXPENSES)		
Certain Fringe Benefits Paid Directly by the State of Maryland	2,277,578	-
Federal Grants and Contracts	7,242,785	-
State of MD Grants and Contracts	12,182,294	-
Harford County Grants and Contracts	15,667,598	-
Contributions from Individuals and Organizations	120,267	-
Contributions from HCC Foundation	630,324	(630,324)
Investment Income	12,863	1,002,642
Loss on disposal of assets	<u>(247,665)</u>	<u>-</u>
Net Nonoperating Revenues	<u>37,886,044</u>	<u>372,318</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND ADDITIONS TO ENDOWMENTS	(3,258,239)	1,110,083
State Capital Grants	5,887,386	-
Harford County Capital Grants	6,266,593	-
Contributions for Permanent Endowments	<u>-</u>	<u>38,175</u>
INCREASE IN NET POSITION	8,895,740	1,148,258
Net Position - Beginning of Year	<u>119,107,496</u>	<u>7,798,977</u>
NET POSITION - END OF YEAR	<u>\$ 128,003,236</u>	<u>\$ 8,947,235</u>

See accompanying Notes to Financial Statements.

**HARFORD COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014**

	<u>Harford Community College</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees	\$ 13,049,822
Payments to Suppliers	(17,698,004)
Payments to Employees	(33,773,848)
Auxiliary Enterprise Charges	5,144,581
Other Receipts	<u>657,538</u>
Net Cash Used by Operating Activities	(32,619,911)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal Student Loan Programs Receipts	2,081,329
Federal Student Loan Programs Disbursements	(2,081,329)
Federal Grants and Appropriations	7,204,426
State Grants and Appropriations	12,301,573
County Grants and Appropriations	15,590,082
Private Grants and Contributions	<u>615,772</u>
Net Cash Provided by Noncapital Financing Activities	35,711,853
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Grants Received	9,575,586
Proceeds from Sale of Capital Assets	27,824
Purchase of Capital Assets	<u>(15,521,905)</u>
Net Cash Used by Capital and Related Financing Activities	(5,918,495)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	<u>12,863</u>
Net Cash Provided by Investing Activities	<u>12,863</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,813,690)
Cash and Cash Equivalents - Beginning of Year	<u>27,354,896</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 24,541,206</u>
Cash and Cash Equivalents - Current	\$ 19,141,928
Cash and Cash Equivalents - Capital Projects	<u>5,399,278</u>
Total	<u><u>\$ 24,541,206</u></u>

See accompanying Notes to Financial Statements.

**HARFORD COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

	Harford Community College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (41,144,283)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	4,079,554
Certain Fringe Benefits Paid Directly to the State of Maryland	2,277,578
Changes in Assets and Liabilities:	
Accounts Receivable	(146,887)
Inventories	25,335
Prepaid Expenses	(55,266)
Due from Foundation	(137,472)
Accounts Payable	1,238,797
Retainage Payable	570,244
Accrued Salaries	348,243
Accrued Compensated Absences	3,451
Other Accrued Liabilities	54,485
Deferred Revenue	66,619
Deposits Held in Custody for Others	199,691
Net Cash Used by Operating Activities	\$ (32,619,911)

See accompanying Notes to Financial Statements.

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014**

**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 position
- Statement of revenues, expenses and changes in net position
- 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 position for SPG's engaged in business-type activities requires an operating/nonoperating format to be used. The College has elected to report 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, 2014**

**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.

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 position 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 position, 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, 2014**

**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. Amounts that remain uncollected are considered delinquent and may be referred to a collection agency. The allowance for doubtful accounts for the College was \$609,300 at June 30, 2014.

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 \$5,202,394 for fiscal year 2014.

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, 2014**

**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, 2014, 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 position. 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, 2014**

**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, 2014 were \$6,231,262.

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.

Unearned 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 approximately 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, 2014**

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

Net Position

Net position is classified as follows:

Net Investment in Capital Assets – This represents the College’s total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted Net Position – Expendable – Expendable restricted net position includes resources for which the College and Foundation are legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Restricted Net Position – Nonexpendable – Nonexpendable restricted net position includes 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 Position – Unrestricted net position includes 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, 2011, 2012 and 2013 are open for review by Federal and State authorities.

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

**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, 2014, the carrying amount of the College deposits, including petty cash of \$12,910, was \$2,720,173 and the bank balance was \$3,543,437.

At June 30, 2014, the College had \$21,821,033 invested in MLGIP.

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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 recoverable. The College's deposit policy for custodial credit risk is to have uninsured deposits collateralized. As of June 30, 2014, \$3,293,437 of the College's bank balances of \$3,543,437 was being held by the Bank of New York Mellon as collateral in the College's name.

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, 2014, the MLGIP funds had a weighted average maturity of 35 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, 2014, the College's investments in the MLGIP are not subjected to custodial credit risk.

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014:

	<u>Fair Value</u>	<u>Cost</u>
Cash Equivalents	\$ 21,483	\$ 21,483
Fixed Income Funds	1,005,685	986,003
Equity Funds	<u>6,707,352</u>	<u>5,800,675</u>
Total	<u>\$ 7,734,520</u>	<u>\$ 6,808,161</u>

Investment income consists of interest and dividends of \$160,699 net of fees and realized and unrealized gains of \$841,943 for the year ended June 30, 2014.

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

Promises to give consist of the following at June 30, 2014:

Promises to Give	\$ 845,852
Discount	<u>(145,382)</u>
Total	<u>\$ 700,470</u>
Amounts Due in:	
Less than One Year	\$ 111,188
One to Five Years	305,332
More than Five Years	<u>429,332</u>
Total	<u>\$ 845,852</u>

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 RECEIVABLES AND PAYABLES

Receivables and payables of the College consist of the following at June 30, 2014:

Accounts Receivable:	
Federal Government	\$ 555,041
State of Maryland	3,624,600
Student Receivables and Other	<u>1,259,684</u>
Total	<u><u>\$ 5,439,325</u></u>
Accounts Payable:	
Vendors	\$ 2,690,574
Retainage	631,445
Due to Students	<u>181,824</u>
Total	<u><u>\$ 3,503,843</u></u>
Accrued Liabilities:	
Payroll and Payroll Taxes	<u><u>\$ 1,411,663</u></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, 2014:

	Balance June 30, 2013	Addition	Retirement	Transfer	Balance June 30, 2014
Capital Assets Not Being Depreciated:					
Land	\$ 3,564,162	\$ -	\$ -	\$ -	\$ 3,564,162
Construction in Progress	<u>1,156,392</u>	<u>12,898,102</u>	-	<u>(204,499)</u>	<u>13,849,995</u>
Total Capital Assets Not Being Depreciated	4,720,554	12,898,102	-	(204,499)	17,414,157
Capital Assets Being Depreciated:					
Land Improvements	14,407,097	1,989,263		95,280	16,491,640
Buildings	99,251,284	20,758	(260,000)	109,219	99,121,261
Furniture and Equipment	5,334,646	369,918	(762,610)		4,941,954
Computer Technology	4,245,710	44,213	(524,030)		3,765,893
Vehicles	671,215	88,133			759,348
Library Books	<u>1,497,181</u>	<u>111,517</u>	<u>(58,402)</u>		<u>1,550,296</u>
Total Capital Assets Being Depreciated	125,407,133	2,623,802	(1,605,042)	204,499	126,630,392
Less Accumulated Depreciation:					
Land Improvements	4,307,675	464,565		-	4,772,240
Buildings	22,140,579	2,901,883	(78,000)	-	24,964,462
Furniture and Equipment	3,343,011	365,499	(674,769)	-	3,033,741
Computer Technology	3,382,172	220,674	(518,382)	-	3,084,464
Vehicles	379,027	70,396		-	449,423
Library Books	<u>1,115,065</u>	<u>56,536</u>	<u>(58,402)</u>	-	<u>1,113,199</u>
Total Accumulated Depreciation	<u>34,667,529</u>	<u>4,079,553</u>	<u>(1,329,553)</u>	-	<u>37,417,529</u>
Total Capital Assets, Net	<u><u>\$ 95,460,158</u></u>	<u><u>\$ 11,442,351</u></u>	<u><u>\$ (275,489)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 106,627,020</u></u>

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 7 COMPENSATED ABSENCES

Compensated absences activity for the year ended June 30, 2014 is as follows:

	Balance June 30, 2013	Addition	Retirement	Balance June 30, 2014	Balance Due Within Year
Compensated Absences	\$ 1,161,742	\$ 121,775	\$ (118,325)	\$ 1,165,192	\$ 99,002

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, 2014 are as follows:

<u>Year Ending June 30.</u>	<u>Amount</u>
2015	247,053
2016	30,805

Total rent expense for the year ended June 30, 2014 was \$271,479.

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, 2014**

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 \$82,478 and contributions by the State of Maryland to the Maryland Retirement Pension System on behalf of the College totaling \$1,813,178, or 14.71% of covered payroll for fiscal year 2014, were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of July 1, 2013. Additional contributions were made by the State of Maryland to the Optional Retirement System on behalf of the College totaling \$464,400, or 7% of covered payroll for fiscal year 2014. Total annual pension costs contributed by the State of Maryland and included within the chart below are \$2,277,578 for fiscal year 2014.

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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
2012	2,291,049	82,281	2,208,768	100.00%	-
2013	1,823,412	67,473	1,755,939	100.00%	-
2014	2,360,056	82,478	2,277,578	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 or less as part of a retirement window benefit program. As of June 30, 2014, there were 7 eligible and participating retirees receiving an annual subsidy. The Plan does not issue a stand-alone financial report.

As of June 30, 2014, there were 42 participants out of 321 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, 2014**

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	\$ 97,000
Interest on Net OPEB Obligation	5,000
Adjustment to Annual Required Contribution	<u>(5,000)</u>
Annual OPEB Cost (Expense)	97,000
Contributions Made	<u>(72,000)</u>
Increase in Net OPEB Obligation	25,000
Net OPEB Obligation - Beginning of Year	<u>133,221</u>
Net OPEB Obligation - End of Year	<u><u>\$ 158,221</u></u>

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2014, 2013 and 2012 were as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 97,000	74.2%	\$ 158,221
2013	94,000	86.2%	133,221
2012	92,000	93.5%	120,221

Funding Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the unfunded actuarial accrued liability (UAAL) was \$1,016,000. 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 6.8%.

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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 pro-ration 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, 2013 was 24 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, 2014, the College had amounts on deposit with the trustee of the Consortium totaling \$50,495. 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 \$361,017 for the self-insured portion is netted against the deposit in the statement of net position. A reconciliation of the activity of the deposit is set forth as follows:

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 11 RISK MANAGEMENT (CONTINUED)

Fiscal Year Ended June 30,	Beginning Balance (Net)	Premium	Incurred/ Estimated Expenses	Interest /Other Income	Withdrawal/ Contribution	Change in Liability for 7% of Premiums Paid	Ending Balance (Net)
2013	\$ 6,433	\$ 4,797,562	\$ 4,826,762	\$ 361	\$ 116,816	\$ 43,915	50,495
2012	\$ 666,972	\$ 4,530,035	\$ 5,174,422	\$ 1,168	\$ -	\$ 17,320	6,433

NOTE 12 RELATED PARTY TRANSACTIONS

During the year ended June 30, 2014, the Foundation distributed \$630,324 to the College for both restricted and unrestricted purposes. The Foundation paid the College \$35,996 for management fees for the fiscal year 2014. In addition, the College paid, on behalf of the Foundation, a percentage of various overhead-related expenditures totaling approximately \$22,773 for the year ended June 30, 2014.

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 POSITION

Restricted (expendable) net position is restricted for the following purposes as of June 30, 2014:

Loans	<u>\$ 69,523</u>
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NOTE 14 HARFORD COMMUNITY COLLEGE FOUNDATION, INC. – RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of June 30, 2014:

Endowment Investments and Earnings Restricted for:	
Scholarships	\$ 2,565,790
Other	131,566
Contributions Restricted for:	
Equipment and Programs	1,123,579
Scholarships	<u>1,470,643</u>
Total	<u>\$ 5,291,578</u>

Permanently restricted net assets at June 30, 2014 are restricted in perpetuity with income available to support the following purposes:

Scholarships	\$ 2,941,067
General Purpose	310,000
Specific Programs	<u>3,150</u>
Total	<u>\$ 3,254,217</u>

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 15 COMMITMENTS AND CONTINGENCIES

The College has outstanding commitments for the following ongoing capital projects as of June 30, 2014:

Nursing and Allied Health Building	\$ 3,315,288
Plant Services Annex	1,934,806
Edgewood Hall Renovation	393,087
Other Projects	<u>280,602</u>
Total	<u><u>\$ 5,923,783</u></u>

Funding for the new Nursing and Allied Health Building and Edgewood Hall Renovation is primarily being generated through County and State grants. The Plant Services Annex project is being funded internally.

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 2 would be \$3,102,490.

NOTE 16 NEW ACCOUNTING STANDARDS ADOPTED

The College adopted the GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, as of June 30, 2014, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The adoption of this standard did not have a material impact on the College's financial statements.

The College also adopted GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, as of June 30, 2014, which enhanced the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The adoption of this standard did not have an impact on the College's financial statements.

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 17 RECENT GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) PRONOUNCEMENTS

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.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The requirements of this Statement are effective for the fiscal year ending June 30, 2015. Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The College has not determined the effect of GASB Statement No. 69 on the financial statements.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The requirements of this Statement are effective for the fiscal year ending June 30, 2015. The objective of Statement No. 70 is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The College has not determined the effect of GASB Statement No. 70 on the financial statements.

In January 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of this Statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68, *Accounting and Financial Reporting for Pensions*, concerning transition provisions related to certain pension contribution made to defined benefit pension plans prior to implementation of that Statement by employers and non-employer contributing entities. The College has not determined the effect of GASB Statement No. 70 on the financial statements.

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 18 HARFORD COMMUNITY COLLEGE FOUNDATION, INC. – RESTATEMENT

Certain errors resulting in an understatement of previously reported contribution revenue and promises to give were discovered during the current year. Two promises to give totaling \$100,000 (\$91,029 net of discount) were received by the Foundation in 2013, but were not correctly recorded as contribution revenue in 2013. As a result, the following financial statement line items for 2013 were restated:

	<u>As Originally Reported</u>	<u>As Restated</u>
<i>Statement of Financial Position, June 30, 2013</i>		
Assets,		
Promises to Give, Net	\$ 693,661	\$ 784,690
Total Assets	7,739,209	7,830,238
Net Assets,		
Temporarily Restricted	4,149,752	4,240,781
Total Net Assets	7,707,948	7,798,977
Total Liabilities and Net Assets	7,739,209	7,830,238
<i>Statement of Activities, Year Ended June 30, 2013</i>		
Revenues and Support,		
Contributions	\$ 617,124	\$ 708,153
Total Revenues and Support	1,326,199	1,417,228
Change in Net Assets	606,276	697,305
Net Assets - End of Year	7,707,948	7,798,977
<i>Statement of Cash Flows, Year Ended June 30, 2013</i>		
Change in Net Assets	\$ 606,276	\$ 697,305
Allowance and Discount on Promises to Give	(10,791)	(1,820)
Promises to Give	(41,685)	(141,685)

**HARFORD COMMUNITY COLLEGE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2014
(UNAUDITED)**

Schedule of Funding Progress

Actuarial Valuation Date <u>July 1,</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Projected Unit Credit <u>(b)</u>	Unfunded AAL (UAAL) <u>(b - a)</u>	Funded Ratio <u>(a / b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>((b - a) / c)</u>
2007	\$ -	\$ 905,610	\$ 905,610	0%	\$ 15,076,279	6.0%
2011	-	1,016,000	1,016,000	0%	14,877,295	6.8%

**HARFORD COMMUNITY COLLEGE
BUDGETARY COMPARISON SCHEDULE
GENERAL OPERATING FUND
YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

	Original Budgeted Amounts	Actual (Budgetary Basis)	Variance with Budget Favorable (Unfavorable)
REVENUES			
Tuition and Fees	\$ 18,181,704	\$ 17,142,783	\$ (1,038,921)
State of Maryland	10,345,648	10,345,648	-
Harford County, MD	14,961,612	14,961,612	-
Other Revenue	<u>680,764</u>	<u>524,680</u>	<u>(156,084)</u>
Total Revenues	44,169,728	42,974,723	(1,195,005)
EXPENDITURES			
Instruction	18,946,041	17,991,721	954,320
Academic Support	6,582,861	5,873,175	709,686
Student Services	5,339,631	4,968,136	371,495
Institutional Support	8,747,888	8,707,088	40,800
Operations of Plant	4,697,800	4,454,221	243,579
Scholarships and Fellowships	1,068,094	884,779	183,315
Transfers	<u>1,637,421</u>	<u>1,534,989</u>	<u>102,432</u>
Total Expenditures	<u>47,019,736</u>	<u>44,414,109</u>	<u>2,605,627</u>
OPERATING SURPLUS (DEFICIT)	<u>\$ (2,850,008)</u>	<u>\$ (1,439,386)</u>	<u>\$ 1,410,622</u>

This General Operating Fund Budgetary Comparison Schedule does not include fiscal year 2014 encumbrances that represent commitments in the amount of \$252,005.

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

INDEPENDENT AUDITORS' 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of Harford Community College (the College), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated August 29, 2014. The financial statements of The Harford Community College Foundation, Inc., the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
August 29, 2014



**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

Report on Compliance for Each Major Federal Program

We have audited Harford Community College's (the College) compliance with the types of compliance requirements described in the *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, 2014. The College's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. The College's basic financial statements include the operations of a discretely presented component unit. Federal awards received by the discretely presented component unit are not included in the College's schedule of expenditures of federal awards during the year ended June 30, 2014. Our audit, described below, did not include the operations of the discretely presented component unit because they did not receive federal awards.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the College's major federal program based on our audit of the types of compliance requirements referred to above. 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 on compliance for the College's major federal program. However, our audit does not provide a legal determination of the College's compliance.

Opinion on Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for a major federal program 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.

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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
August 29, 2014

HARFORD COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	CFDA* Number	Grant Number	Total Grant Award	Grant Expenditures
U.S. DEPARTMENT OF EDUCATION				
Direct Awards:				
Student Financial Assistance Cluster:				
Federal Supplemental Educational Opportunity Grant	84.007	07A121752	85,197	\$ 7,675
Federal Supplemental Educational Opportunity Grant	84.007	07A131752	83,137	69,372
Federal Work-Study Program	84.033	033A121752	108,215	9,613
Federal Work-Study Program	84.033	033A131752	108,215	96,960
Federal Pell Grant Program	84.063	63P122923	(27,766)	(27,766)
Federal Pell Grant Program	84.063	63P132923	6,720,418	6,720,418
Federal Direct Loan Program	84.268	P268K111554	(748)	(748)
Federal Direct Loan Program	84.268	P268K112554	2,081,329	2,081,329
Total Student Financial Assistance Cluster				<u>8,956,852</u>
Administered through the Maryland State Department of Education (MSDE):				
Voc. Ed. Act - Adult Education Title IIA:				
Title 1C Program Improvement	84.048	144514	163,390	136,390
Title 1C Program Improvement	84.048	134790	168,581	290
Total Voc. Ed. Act - Adult Education Title IIA				<u>136,680</u>
Child and Career and Professional Development	93.575	144195	56,514	45,097
Total Federal Programs Administered through the MSDE				<u>181,777</u>
Administered through the Maryland State Department of Labor, Licensing and Regulation (MSDLLR):				
Adult Basic Education Act:				
Adult Basic Education	84.002A	POOP4400191	171,905	171,905
Total Federal Programs Administered through the MSDLLR				<u>171,905</u>
Total U.S. Department of Education				<u>9,310,534</u>
U.S. SMALL BUSINESS ADMINISTRATION				
Administered through Maryland Small Business Development:				
Small Business Development Centers	59.037	Q002301	127,288	36,045
Small Business Development Centers	59.037	Q020504	116,990	51,162
Small Business Development Centers	59.037	Z974704	134,000	14,057
Total U.S. Small Business Administration				<u>101,265</u>
U.S. DEPARTMENT OF LABOR				
Administered through Susquehanna Workforce:				
Susquehanna Workforce Network Youth Program	17.259	HY13-Z	85,910	85,910
Susquehanna Workforce Network Youth Program	17.259	P116Z080033	74,490	7,534
Total U.S. Department of Labor				<u>93,444</u>
NATIONAL ENDOWMENT FOR THE HUMANITIES				
Making Sense of the American Civil War	45.164	LJ-50013-11	2,500	28
Total National Endowment for the Humanities				<u>28</u>
NATIONAL SCIENCE FOUNDATION				
Cyber Security Education	47.076	1241748	74,000	2,708
Total National Science Foundation				<u>2,708</u>
U.S. ARMY RESEARCH OFFICE				
STEM Teaching Academy	12.63	W911NF-10-2-0076	53,339	36,549
Total U.S. Army Research Office				<u>36,549</u>
Total Federal Awards Expended				<u>\$ 9,544,528</u>

**HARFORD COMMUNITY COLLEGE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

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, 2014**

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statement noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
Various	Student Financial Aid Cluster

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

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

**HARFORD COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

NONE

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

CURRENT YEAR

NONE

PRIOR YEAR

13-1

Condition: National Student Loan Data System (NSLDS) Enrollment Reporting

During our testing, we noted one student out of twenty-six tested whose enrollment status was not properly reported to NSLDS.

Auditors' Recommendation:

We recommended the College review its policies and procedures surrounding reporting enrollment status changes to NSLDS. ED regulations specify that students must be considered withdrawn if they cease enrollment in any classes; the regulations provide further guidance on how to determine the exact withdrawal date that must be reported. We further recommend the College review its policies around enrollment status definitions and ensure these definitions are in compliance with ED regulations.

Current Status:

The recommendation was adopted in fiscal 2014. No similar findings were noted in the 2014 audit.