

**HARRISBURG AREA  
COMMUNITY COLLEGE  
Harrisburg, Pennsylvania**

**FINANCIAL STATEMENTS  
June 30, 2010 and 2009**

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## Independent Auditor's Report

Board of Trustees  
Harrisburg Area Community College  
Harrisburg, Pennsylvania

We have audited the accompanying financial statements of the business-type activities, and the discretely presented component unit of Harrisburg Area Community College (the College) as of and for the year ended June 30, 2010, which collectively comprise the College's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the College as of June 30, 2009 were audited by other auditors whose report dated October 15, 2009, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2010 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, 2010, and the respective changes in financial position and cash flows, where applicable for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2010 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Schedule of Funding Progress – OPEB, as listed in the table of contents, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole.

*Clifton Gunderson LLP*

Lancaster, Pennsylvania  
October 18, 2010

**HARRISBURG AREA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended June 30, 2010 and 2009**

**Introduction:**

Management's Discussion and Analysis (MD&A) of Harrisburg Area Community College's (HACC) financial statements provides an overview of the College's financial performance during the fiscal year ended June 30, 2010, with selected comparative information for the years ended June 30, 2009 and 2008. The purpose of the MD&A is to assist readers with understanding the accompanying financial statements by providing objective and understandable analysis of HACC's financial activities based on current known facts, decisions, and conditions. HACC management has prepared this analysis and is responsible for the completeness and fairness of the information contained within. This MD&A should be read in conjunction with the financial statements and notes.

The College has prepared its financial statements in accordance with Government Accounting Standards Board (GASB) principles which establish standards for external financial reporting for public colleges and universities and require that the financial statements be presented to focus on the College as a whole. Three financial statements are presented: the Statement of Net Assets; the Statement of Revenues, Expenditures, and Changes in Net Assets; and the Statement of Cash Flows. This MD&A includes comments on each statement and focuses on the activities of the College (Primary Institution) only.

Additionally, the College has implemented Government Accounting Standards Board Statement No. 39, "Determining Whether Certain Organizations are Component Units." Pursuant to the criteria set forth in GASB 39, it was determined that the HACC Foundation is a component unit, whose sole purpose is to serve the institution by providing resources for scholarships and other college projects. The Foundation's financial statements for June 30, 2010 and 2009 are displayed in the financial statements section of the report and are not included in the MD&A discussions. Separately issued financial statements are available for the HACC Foundation by contacting Mr. George A. Franklin, Jr., Vice President of Finance and College Resources, Harrisburg Area Community College, One HACC Drive, Harrisburg, PA 17110-2999.

**Financial Highlights:**

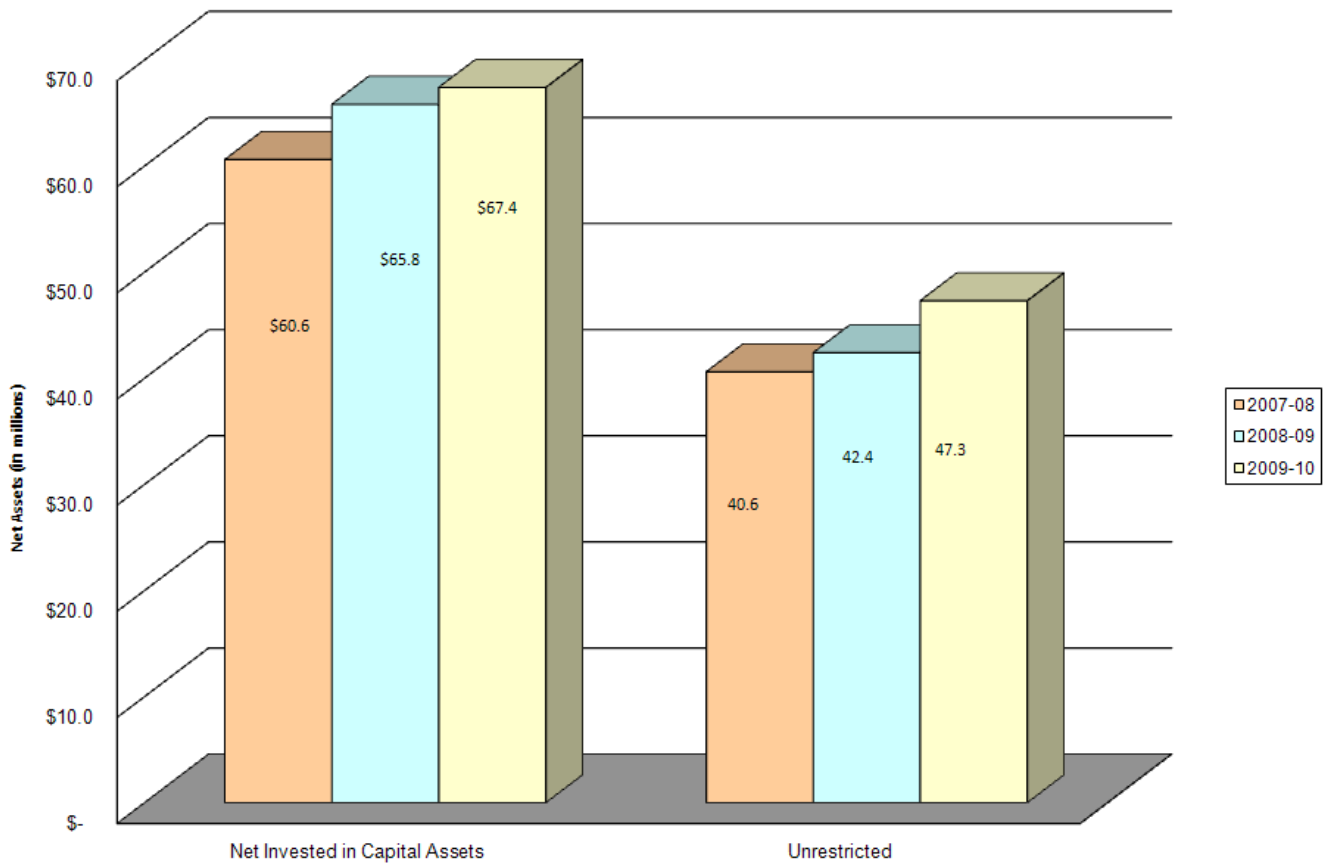
HACC's financial position continues to remain strong as of June 30, 2010. At June 30, 2010, HACC's assets of \$228.9 million exceeded its liabilities of \$114.1 million by \$114.7 million, an increase over the prior year of \$6.5 million. At June 30, 2009, assets of \$195.8 million exceeded liabilities of \$87.5 million by \$108.2 million, an increase over the prior year of \$7.0 million.

The **Net Assets**, which represent the difference between total assets and total liabilities, are divided into two major categories. The first category, invested in capital assets, net of related debt, shows the College's equity in property, plant, and equipment it owns. The second category, unrestricted net assets, is available to use for any lawful purpose of the College. The following table and graph summarizes the College's statement of net assets by category for the fiscal years ended June 30, 2010, 2009, and 2008.

**HARRISBURG AREA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended June 30, 2010 and 2009**

	Net Assets As of June 30 (In millions)		Increase (Decrease) 2010-2009	2008	Increase (Decrease) 2009-2008
	2010	2009			
Invested in capital assets, net of related debt	\$67.4	\$65.8	\$1.6	\$60.6	\$5.2
Unrestricted	47.3	42.4	\$4.9	40.6	\$1.8
<b>Total Net Assets</b>	<b>\$114.7</b>	<b>\$108.2</b>	<b>\$6.5</b>	<b>\$101.2</b>	<b>\$7.0</b>

**Comparison of Net Assets Fiscal Years 2008, 2009, 2010**

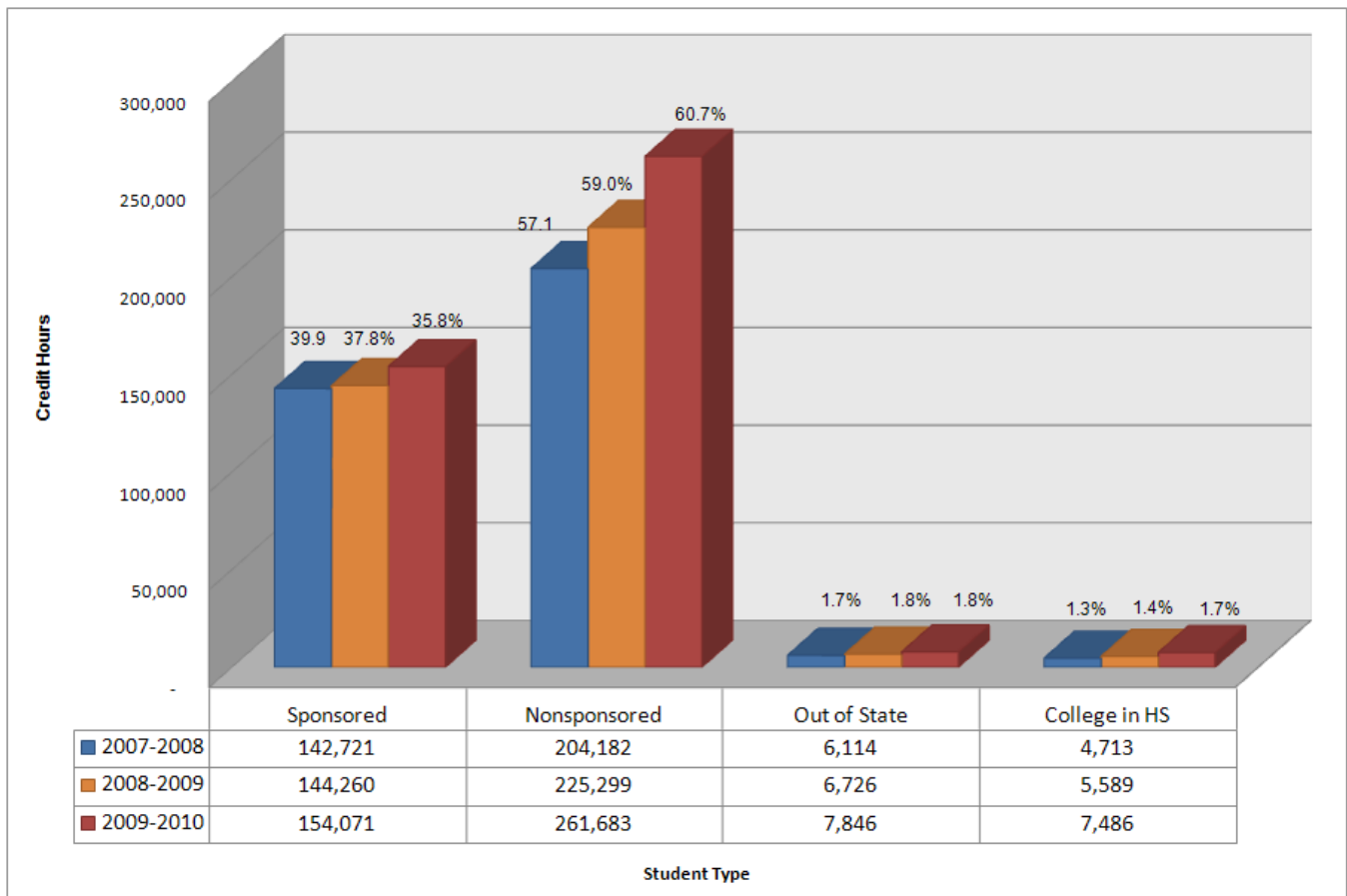


**Credit Hour Production** increased at a 12.9% growth rate in 2010, while the 2009 rate was at 6.7%. Total credit hour production of 431,086 was 49,212 greater than from the 2009 credit hours of 381,874. In 2009 the growth was 24,144 credit hours higher than the 2008 credit hours of 357,730. Every campus experienced significant growth in 2010.

**HARRISBURG AREA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended June 30, 2010 and 2009**

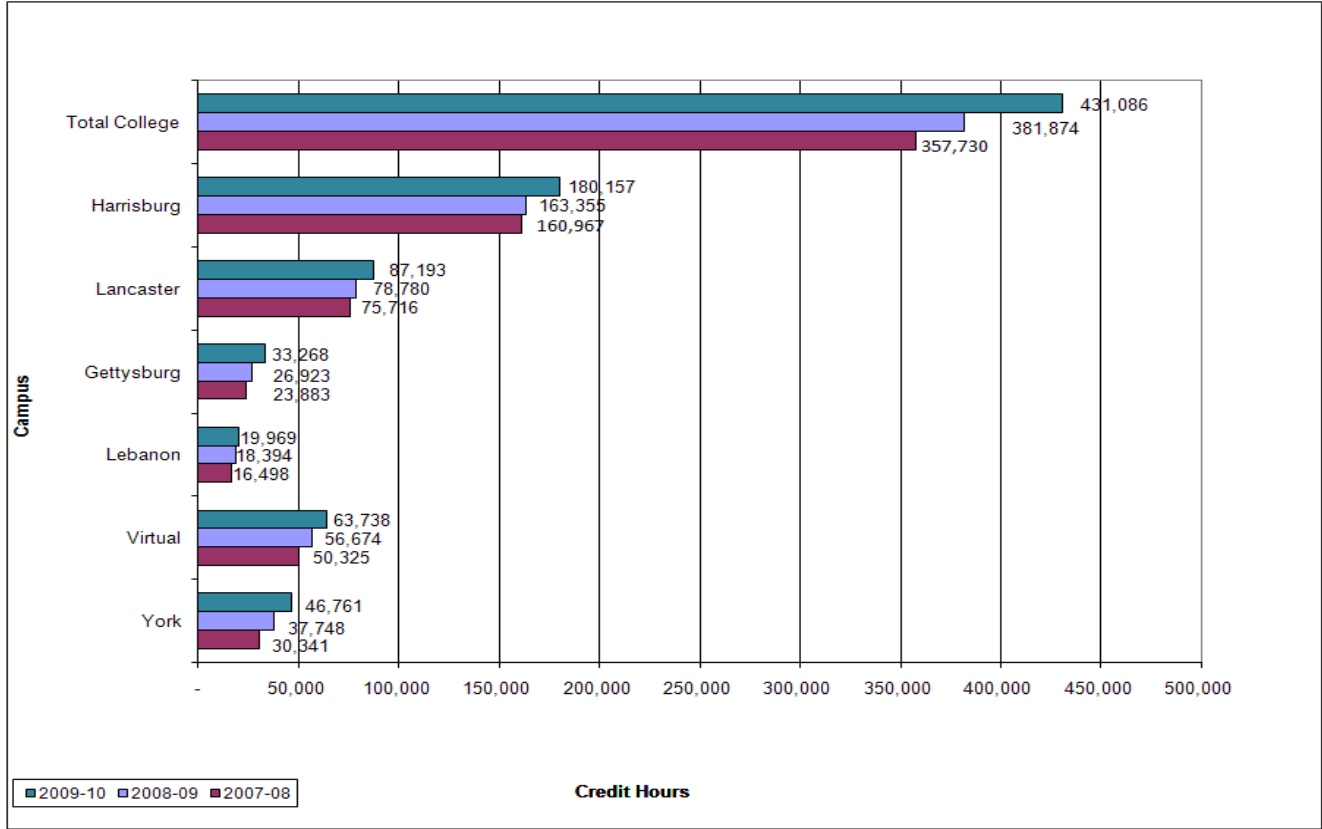
While there was a 7% growth in sponsored student credit hours in 2010, non-sponsored and out of state credit hours grew 16%. The trend of HACC's non-sponsored credit hour production bears a greater percentage of the total credit hours produced each year, which continues and denotes the tremendous growth experienced at our non-Harrisburg campuses. In 2010, the 261,683 non-sponsored credit hours represent 60.7% of the total credit hours. This shows an increase from 225,229 credit hours or 59% of the total in 2009 and from 204,182 credit hours, or 57.1% in 2008. Each non-sponsored student paid a tuition of \$177 per credit hour in 2010, while a sponsored student paid \$98.50 per credit hour and received local sponsoring school district support of \$80.50 per credit hour.

**Credit Hour Production by Student Type**



**HARRISBURG AREA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended June 30, 2010 and 2009**

**Credit Hour Production by Campus 2008, 2009, 2010**



**HARRISBURG AREA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended June 30, 2010 and 2009**

**Statement of Net Assets:**

The Statement of Net Assets presents the assets, liabilities, and net assets of the College as of the end of the June 30, 2010 fiscal year. This statement provides a snapshot of the financial condition of the College with unrestricted net assets representing funds available to continue the operations of the institution. It presents the end-of-the-year data for Current and Noncurrent Assets, Current and Noncurrent Liabilities, and Net Assets (Assets minus Liabilities). Over periods of time, increases and decreases in net assets may serve as a useful gauge of the College's financial position. As the following chart illustrates, the College is in a strong financial position with net assets increasing over the past years.

**Statement of Net Assets  
(In millions)**

	2010	2009	Increase (Decrease) 2010-2009	2008	Increase (Decrease) 2009-2008
<b>Assets</b>					
Current Assets	\$98.0	\$80.2	\$17.8	\$70.8	\$9.4
Noncurrent Assets	130.9	115.6	15.3	95.1	20.5
<b>Total Assets</b>	<b>228.9</b>	<b>195.8</b>	<b>33.1</b>	<b>165.9</b>	<b>29.9</b>
<b>Liabilities</b>					
Current Liabilities	25.3	20.7	4.6	21.2	(0.5)
Noncurrent Liabilities	88.8	66.8	22.0	43.5	23.3
<b>Total Liabilities</b>	<b>114.1</b>	<b>87.5</b>	<b>26.6</b>	<b>64.7</b>	<b>22.8</b>
<b>Net Assets</b>					
Invested in Capital Assets, net of debt	67.4	65.8	1.6	60.6	5.2
Unrestricted	47.3	42.4	4.9	40.6	1.8
<b>Total Net Assets</b>	<b>\$114.7</b>	<b>\$108.2</b>	<b>\$6.5</b>	<b>\$101.2</b>	<b>\$7.0</b>

In 2010, current assets increased by \$17.8 million over 2009. Most of this increase, \$15.4 million, is in cash and cash equivalents and short term investments, of which a net change of \$9.0 million was in bond proceeds not yet spent (Bond proceeds +\$22.6 million 2010 & 2009 -\$13.6 million prior year bond). In addition we saw a \$900,000 increase in accounts receivable due to increases in both enrollment and tuition rates; an \$800,000 increase in other assets, and a \$650,000 increase in bookstore inventories. The noncurrent assets increased by \$15.3 million in 2010 from the previous year. This increase is largely due to capital assets associated with the expansion/renovation of the Gettysburg Campus; renovations at the York Campus; renovations at Blocker and Cooper buildings and leasehold improvements at the Midtown 1 and Campus Square buildings on the Harrisburg Campus; and property purchases at the York and Lancaster campuses.

Current liabilities for 2010 increased \$4.6 million due to an increase in accounts payable and accrued expenses, and an increase in the current portion of the 2009A bond issued for the expansion/renovation of Campus Square, Harrisburg, and Lebanon Campuses. Noncurrent liabilities for 2010 reflect an increase of \$22.0 million attributed largely to the net increase in bonds payable with the issue of the 2009A bond noted above and the 2010 bond issued to renovate and expand the Public Safety Center on the Harrisburg Campus.

**HARRISBURG AREA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended June 30, 2010 and 2009**

Net assets increased to \$114.7 million as of June 30, 2010. The largest portion of these net assets (\$67.4 million) reflects the College's investment in capital assets, less any related outstanding debt used to acquire those assets. The College uses these capital assets to provide services to students, faculty, and staff so these assets are not available for future spending. Therefore, resources needed to repay this debt must be provided from other sources since capital assets themselves cannot be used to liquidate these liabilities. The balance is unrestricted net assets (\$47.3 million) which is available to use for any lawful purpose of the College.

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

The Statement of Revenues, Expenses, and Changes in Net Assets shows the College's financial results for the fiscal year. The statement includes the College's revenues and expenses, both operating and non-operating.

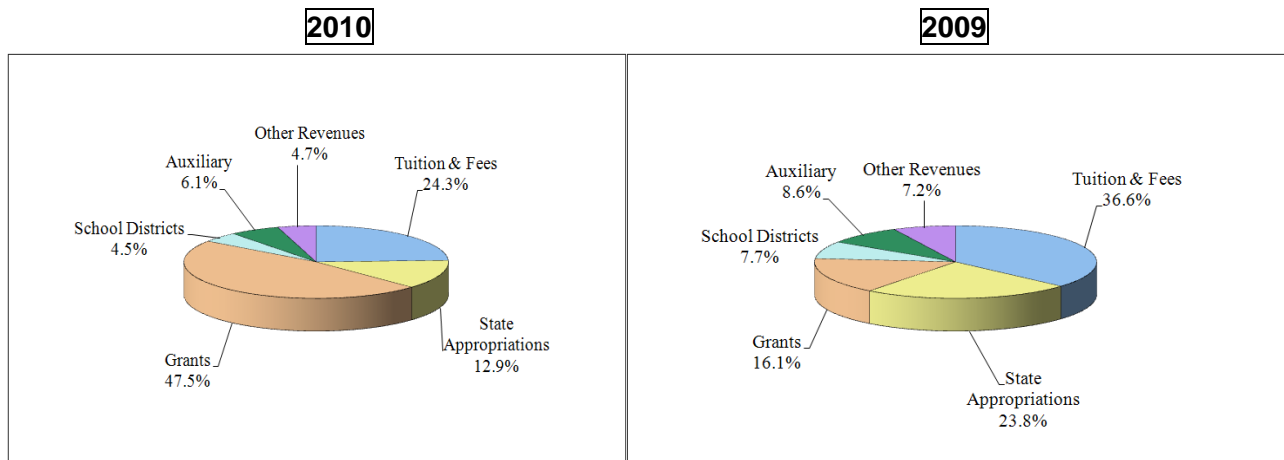
Operating revenues are those received by the College for directly providing goods and services. Non-operating revenues are those that exclude a direct exchange of goods and services. State and school district appropriations are classified as non-operating revenues since these governmental agencies do not directly receive goods or services for the revenue.

The following is a summarized version of the College's revenues, expenses, and changes in net assets for years ending June 30, 2010, 2009, and 2008 as well as graphical representations of revenues and expenses by category.

**Revenues, Expenses and Changes in Net Assets  
(In millions)**

	2010	2009	Increase (Decrease) 2010-2009	2008	Increase (Decrease) 2009 - 2008
Operating Revenues	\$206.3	\$99.8	\$106.5	\$93.1	\$6.7
Operating Expenses	252.7	155.3	97.4	143.2	12.1
Operating Income (Loss)	(46.4)	(55.5)	9.1	(50.1)	(5.4)
Nonoperating Revenues (Net)	44.3	47.3	(3.0)	47.5	(0.2)
Net Income (Loss) Before Capital Contributions	(2.1)	(8.2)	6.1	(2.6)	(5.6)
Capital Contributions	8.6	15.2	(6.6)	14.7	0.5
Increase (Decrease) in Net Assets	\$6.5	\$7.0	(\$0.5)	\$12.1	(\$5.1)

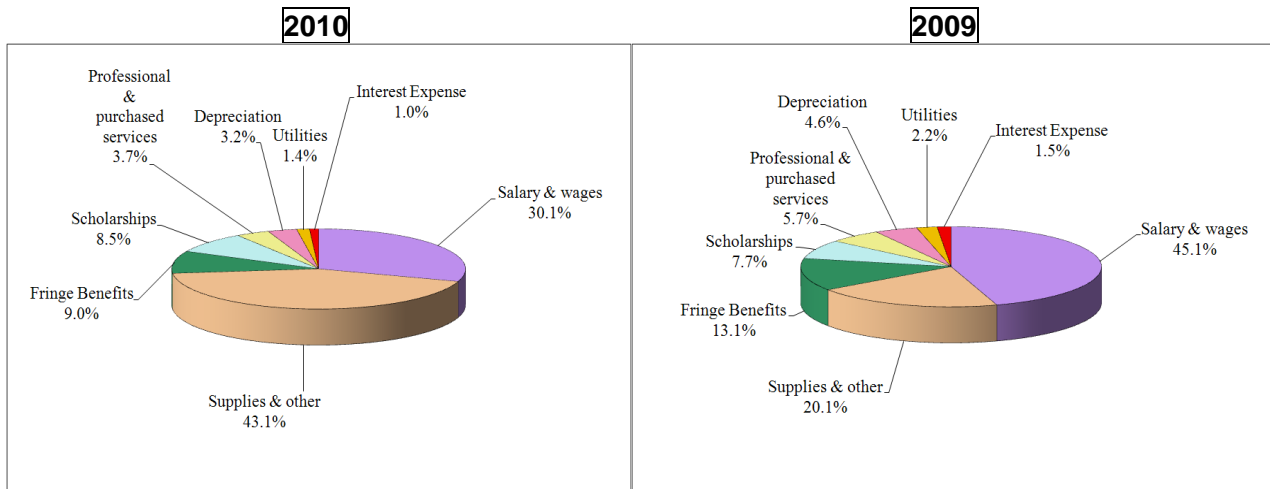
**Total Operating and Non-Operating Revenue**



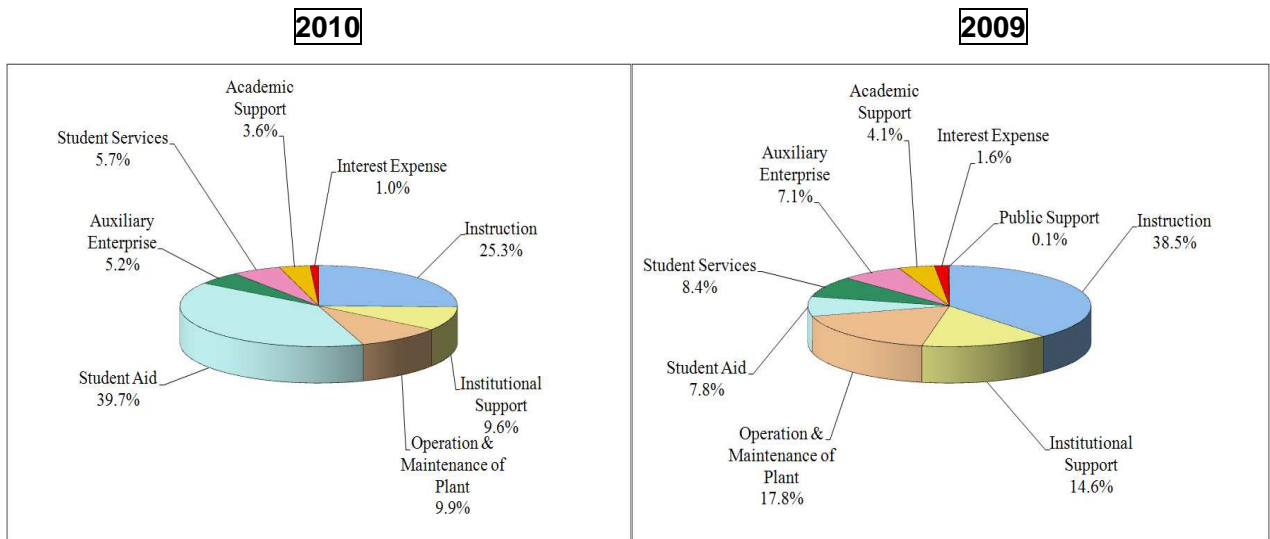
**HARRISBURG AREA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended June 30, 2010 and 2009**

Operating revenues of \$206.3 million in 2010 were \$106.5 million greater than 2009. Total operating revenues in 2009 were \$99.8 million, which was an increase of \$6.7 million over 2008. The largest driver of the 2010 increase is an additional \$95.5 million in federal grants. The majority of this increase (\$79.5 million) is associated with the College's moving from Stafford (FFELP) loans to the Federal Direct Loan Program with the balance due mostly to increased financial aid funding associated with enrollment growth. There was a \$1 million increase in state grants from the Post 911 Chapter 33 grant to qualifying veterans and certain qualifying dependents. Tuition and fees increased \$10.7 million driven by both our enrollment growth of 12.9% and increased tuition per credit hour (sponsored students \$98.50 in 2010 versus \$92.50 in 2009; non-sponsored students \$177.00 in 2010 versus \$171.00 in 2009; and out-of-state students \$265.50 in 2010 versus \$256.50 in 2009). Also, we saw an increase in auxiliary service sales from our bookstore operations and an increase in other operating revenues.

**Total Operating Expenditures by Natural Source**



**Total Operating Expenditures by Function**



**HARRISBURG AREA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended June 30, 2010 and 2009**

The other side of enrollment growth is shown by a \$97.4 million increase in operating expenses in 2010. The largest portion of this increase (\$79.5 million) is due to the change from Stafford (FFELP) to Direct Loan Program and increased Scholarships (\$9.5 million). Salary and Benefits increased \$8.2 million as a result of both salary increases in 2010 and additional staffing required in response to campus expansion and enrollment growth. Other increases in the 2010 operating expense were for supplies, professional and purchased services.

Non-operating revenues (expenses) saw an overall decrease of \$3.0 million. This is the net result of a \$2.9 million decrease in state operating appropriations (which was replaced by an equal amount of ARRA State Fiscal Stabilization Funds) and a \$119,000 increase in interest expense on capital assets related to debt occurred, which includes a first time interest payment on the 2009A bonds issued to renovate/expand the Lebanon Campus, Harrisburg Campus and Campus Square building.

The total capital contributions for fiscal year 2010 amounted to \$8.6 million. This is a decrease of \$6.6 million over the previous year due to \$6.0 million less in Capital Grants and Gifts in 2010. In the prior year the college received a one time grant for leasehold improvements to the Midtown 2 building and funding from the capital campaign for the Select Medical and Pollock buildings.

The Statement of Revenues, Expenses, and Changes in Net Assets reflect another positive year. Continued enrollment growth and expansion generated both additional revenue and expense, with net effect being an increase to assets of \$6.5 million.

**Statement of Cash Flows:**

The final statement presented by the College is the Statement of Cash Flows. The Statement of Cash Flows presents information about the cash activity of the College identifying the major sources and uses of cash during the year. The following summary shows the College's liquidity as of June 30, 2010, had increased \$22.0 million compared to the prior year. The following is a summary of the statement of cash flows for the years ending June 30, 2010, 2009, and 2008.

	2010	2009	Increase (Decrease) 2010-2009	2008	Increase (Decrease) 2009-2008
Cash Provided (Used) By:					
Operating Activities	(\$37.8)	(\$47.2)	\$9.4	(\$43.4)	(\$3.8)
Noncapital Financing Activities	46.8	47.7	(\$0.9)	48.9	(1.2)
Capital Financing Activities	5.5	7.2	(\$1.7)	5.9	1.3
Investing Activities	7.5	(3.5)	11.0	6.4	(9.9)
Net Increase in Cash and Cash Equivalents	22.0	4.2	17.8	17.8	(13.6)
Cash and Cash Equivalents - Beginning of Year	45.9	41.7	\$4.2	29.6	12.1
Reclassification of cash equivalent to Short term investment				(5.7)	5.7
Cash and Cash Equivalents - End of Year	\$67.9	\$45.9	\$22.0	\$41.7	\$4.2

**HARRISBURG AREA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended June 30, 2010 and 2009**

**Capital Plan:**

Capital projects planned and/or being considered, based upon funding availability, for 2010: Renovations to Harrisburg campus include completion of Blocker Hall ; renovation of existing buildings and construction of a new Public Safety Center building and a pedestrian bridge; internal mass notification system; renovations to Pollock HVAC; renovations to live fire training structure; video signage technology; Evan's pool upgrades. Renovations to Lancaster campus that include bookstore and nursing lab expansion. Renovations to York campus to include Financial Aid and Faculty & Administration building expansion.

**Capital Asset and Debt Administration:**

During the year ended June 30, 2010, the College had total capital additions of approximately \$23.4 million. This activity included various College projects such as renovations of the expanded Gettysburg Campus facility; Welcome Center and Facility office at Gettysburg; Phase II renovation of the Midtown 1 building; expansion of the York Campus; renovations to Campus Square; roof repairs to the Cooper Student Center; CCTA Welding upgrades; renovations to Blocker Hall; relocation of the Harrisburg biology lab and Arts program; repairs to the Harrisburg pool; renovations to the Lebanon facilities; purchase of a property adjacent to the Lancaster campus.

The College has several outstanding debt instruments which were issued to finance various construction projects and other improvements. These debts, including payment schedules are fully disclosed in greater detail within Notes 7 and 8 of the financial statements. In fiscal year 2010 the college committed to fund several renovations to existing college facilities. A \$12,600,000 bond was issued through the State Public Building Authority (SPSBA) to finance this endeavor. Also, a \$15,280,000 bond was issued through the SPSBA to fund renovation of the existing building, construction of a new building at the Shumaker Public Safety Center and pedestrian bridge to connect to the main campus.

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

The financial position of the College is closely tied to the economy and the State's budget. Downturns in the economy, higher unemployment rates in Central Pennsylvania, increasing high school graduating yield rates, the College's ongoing expansion into new markets, and retention efforts have all resulted in continued enrollment growth. The expansion of the Gettysburg and York Campuses, increased offerings by the Virtual Campus, an additional Midtown location to offer green technology programs, and the renovation and expansion of the Public Safety Center will continue to stimulate future enrollment growth.

State funding through annual appropriations and other funding continues to be unpredictable, especially with the uncertainty of the economy. However, the College continues to sustain continued growth through the pursuit of alternative sources of revenue, including funding through grants, major gift campaigns, and partnerships with local businesses, hospitals, and state agencies to meet our ongoing mission to provide low cost education to all who seek it. The College continues to be innovative by offering new programs to our students.

Overall, the College's current financial position is very strong, as is evident by the 2010 financial statements, and will continue to grow and expand while efficiently managing available resources in a prudent manner.

## **FINANCIAL STATEMENTS**

**HARRISBURG AREA COMMUNITY COLLEGE**  
**STATEMENTS OF NET ASSETS**  
**June 30, 2010 and 2009**

	Primary Institution		Component Unit Foundation	
	2010	2009	2010	2009
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 42,374,195	\$ 29,318,102	\$ 404,334	\$ 469,558
Restricted cash and cash equivalents	25,596,705	16,624,104	-	-
Short-term investments	13,383,407	19,939,832	-	-
Accounts receivable, net	10,455,173	9,526,898	2,547,698	4,090,243
Loans receivable - current	29,280	74,880	-	-
Other assets	3,790,099	2,977,616	1,942	2,178
Inventories	2,230,973	1,578,416	-	-
Due from HACC Foundation	157,033	118,304	-	-
Total current assets	<u>98,016,865</u>	<u>80,158,152</u>	<u>2,953,974</u>	<u>4,561,979</u>
<b>NONCURRENT ASSETS</b>				
Long-term investments	-	-	22,965,897	20,147,688
Loans receivable - long-term portion	24,431	160,511	-	-
Capital assets, net	130,861,910	115,462,415	-	-
Total noncurrent assets	<u>130,886,341</u>	<u>115,622,926</u>	<u>22,965,897</u>	<u>20,147,688</u>
Total assets	<u>\$ 228,903,206</u>	<u>\$ 195,781,078</u>	<u>\$ 25,919,871</u>	<u>\$ 24,709,667</u>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Due to HACC	\$ -	\$ -	\$ 157,033	\$ 118,304
Accounts payable and accrued expenses	15,287,736	12,434,920	-	-
Deposits held in custody for others	1,087,241	898,860	-	-
Unearned revenue	2,344,628	2,229,506	74,400	20,010
Current portion of long-term liabilities	6,587,297	5,164,840	-	100,000
Total current liabilities	<u>25,306,902</u>	<u>20,728,126</u>	<u>231,433</u>	<u>238,314</u>
<b>NONCURRENT LIABILITIES</b>				
Long-term liabilities	88,504,164	66,694,582	-	302,313
OPEB obligations	337,105	121,374	-	-
Total noncurrent liabilities	<u>88,841,269</u>	<u>66,815,956</u>	<u>-</u>	<u>302,313</u>
Total liabilities	<u>114,148,171</u>	<u>87,544,082</u>	<u>231,433</u>	<u>540,627</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	67,424,007	65,782,570	-	-
Permanently restricted	-	-	13,309,110	12,184,000
Temporarily restricted	-	-	10,093,629	9,364,833
Unrestricted	47,331,028	42,454,426	2,285,699	2,620,207
Total net assets	<u>114,755,035</u>	<u>108,236,996</u>	<u>25,688,438</u>	<u>24,169,040</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 228,903,206</u>	<u>\$ 195,781,078</u>	<u>\$ 25,919,871</u>	<u>\$ 24,709,667</u>

The accompanying notes are an integral part of the financial statements.

**HARRISBURG AREA COMMUNITY COLLEGE**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**Years Ended June 30, 2010 and 2009**

	Primary Institution		Component Unit Foundation	
	2010	2009	2010	2009
<b>REVENUES</b>				
Operating revenues				
Student tuition and fees	\$ 73,577,486	\$ 62,886,548	\$ -	\$ -
Scholarship allowance and discounts	(12,060,993)	(8,055,865)	-	-
Federal grants	114,930,541	19,431,128	-	-
State and local grants	5,123,317	4,112,619	-	-
Nongovernmental grants	244,899	480,229	-	-
Sales and services of auxiliary enterprises	15,349,793	12,934,446	-	-
Other operating revenues	9,203,289	7,991,596	-	-
Contributions	-	-	2,324,250	5,110,734
Investment income, net of investment expenses of \$120,482 in 2010 and \$116,164 in 2009	-	-	365,153	519,720
Realized and unrealized gains (losses) on investments	-	-	1,741,363	(4,647,697)
Total operating revenues	<u>206,368,332</u>	<u>99,780,701</u>	<u>4,430,766</u>	<u>982,757</u>
<b>EXPENSES</b>				
Operating expenses				
Salaries and wages	77,097,307	71,116,366	327,717	258,649
Fringe benefits and payroll taxes	22,853,041	20,626,866	143,806	87,481
Supplies and other expenses	110,017,890	31,736,138	249,931	1,203,796
Professional and purchased services	9,355,923	8,944,369	222,769	315,302
Utilities	3,598,463	3,431,969	-	-
Depreciation and amortization	8,107,889	7,286,363	-	-
Scholarships	21,655,832	12,124,386	1,060,652	957,404
Contributions and grants	-	-	906,493	1,836,260
Total operating expenses	<u>252,686,345</u>	<u>155,266,457</u>	<u>2,911,368</u>	<u>4,658,892</u>
Operating income (loss)	<u>(46,318,013)</u>	<u>(55,485,756)</u>	<u>1,519,398</u>	<u>(3,676,135)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
State appropriations	32,749,670	35,633,075	-	-
Local appropriations	11,488,603	11,488,603	-	-
Gifts	1,787,970	1,869,744	-	-
Gain on sale of assets	-	150	-	-
Investment income, net of investment expenses of \$8,077 in 2010 and \$10,829 in 2009	878,336	861,287	-	-
Interest expenses	(2,654,304)	(2,535,264)	-	-
Total non-operating revenues, net	<u>44,250,275</u>	<u>47,317,595</u>	<u>-</u>	<u>-</u>
Net income (loss) before capital contributions	<u>(2,067,738)</u>	<u>(8,168,161)</u>	<u>1,519,398</u>	<u>(3,676,135)</u>
<b>CAPITAL CONTRIBUTIONS</b>				
Capital appropriations - local sources	400,000	200,000	-	-
Capital appropriations - state sources	7,039,052	7,936,736	-	-
Capital grants and gifts	1,146,725	7,083,923	-	-
Total capital contributions	<u>8,585,777</u>	<u>15,220,659</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	6,518,039	7,052,498	1,519,398	(3,676,135)
Net assets - beginning of year	<u>108,236,996</u>	<u>101,184,498</u>	<u>24,169,040</u>	<u>27,845,175</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 114,755,035</u>	<u>\$ 108,236,996</u>	<u>\$ 25,688,438</u>	<u>\$ 24,169,040</u>

The accompanying notes are an integral part of the financial statements.

**HARRISBURG AREA COMMUNITY COLLEGE**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2010 and 2009**

	Primary Institution	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from tuition and fees	\$ 62,616,407	\$ 52,876,139
Receipts from grants and contracts	117,539,942	24,385,970
Receipts from auxiliary enterprise charges	15,351,865	12,927,003
Receipts from other revenues	9,292,251	8,461,768
Payments to and on behalf of employees	(98,776,389)	(89,934,845)
Payments to suppliers for good and services	(122,127,005)	(43,787,772)
Payments for financial aid and scholarships	<u>(21,681,525)</u>	<u>(12,084,814)</u>
Net cash used in operating activities	<u>(37,784,454)</u>	<u>(47,156,551)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	33,242,908	34,847,964
Local appropriations	11,843,066	11,023,777
Gifts received	<u>1,739,352</u>	<u>1,864,867</u>
Net cash provided by noncapital financing activities	<u>46,825,326</u>	<u>47,736,608</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Proceed of capital debt financing	27,692,652	44,808,422
Bond issuance costs	(405,360)	(792,719)
State and local appropriations	7,439,052	8,136,053
Capital grants and gifts received	1,146,725	6,985,383
Purchases of capital assets	(22,694,959)	(28,471,117)
Principal paid on debt and capital leases	(4,997,148)	(21,145,683)
Interest paid on debt and capital leases	<u>(2,654,304)</u>	<u>(2,353,553)</u>
Net cash provided by capital financing activities	<u>5,526,658</u>	<u>7,166,786</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(4,322,258)	(18,883,406)
Proceeds from sale/maturities of investments	10,878,683	14,562,823
Investment income	<u>904,739</u>	<u>767,305</u>
Net cash provided by (used in) investing activities	<u>7,461,164</u>	<u>(3,553,278)</u>
Increase in cash and cash equivalents	22,028,694	4,193,565
Cash and cash equivalents - beginning of year	<u>45,942,206</u>	<u>41,748,641</u>
<b>Cash and cash equivalents - end of year</b>	<u><b>\$ 67,970,900</b></u>	<u><b>\$ 45,942,206</b></u>

The accompanying notes are an integral part of the financial statements.

**HARRISBURG AREA COMMUNITY COLLEGE  
STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2010 and 2009**

	<b>Primary Institution</b>	
	<b>2010</b>	<b>2009</b>
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Operating loss	\$ (46,318,013)	\$ (55,485,756)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation and amortization expense	8,106,939	7,286,363
Loss on disposal of capital assets	-	15,395
Effects of changes in operating assets and liabilities:		
Accounts receivable	(1,176,353)	(1,177,370)
Inventory	(652,557)	684,834
Other assets	(454,349)	384,221
Accounts payable and accrued expenses	2,521,498	1,019,014
Deposits	188,381	116,748
Net cash used in operating activities	<b>\$ (37,784,454)</b>	<b>\$ (47,156,551)</b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING TRANSACTIONS</b>		
Capital gifts of equipment and buildings	\$ 59,048	\$ 98,540
Realized and unrealized gains (losses) on investments	\$ -	\$ (47,428)

The accompanying notes are an integral part of the financial statements.

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Harrisburg Area Community College (the "College") is a public comprehensive, two year, co-educational institution, which commenced operations in 1964 under the provisions of the Community College Act of 1963. Campuses are located in Gettysburg, Harrisburg, Lancaster, Lebanon, and York, Pennsylvania. The College is accredited by the Middle States Association of College and Secondary Schools.

**Measurement Focus and Basis of Accounting**

The financial statements of the College have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB"), including Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis of Public Colleges and Universities (an Amendment of GASB Statement No. 34)*. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows, and replaces the fund-group perspective previously required.

The College follows all GASB pronouncements as well as Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, and has elected not to apply FASB Statements and Interpretations issued after November 30, 1989 to its financial statements.

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been prepared on the accrual basis of accounting with a flow of economic resources measurement focus. Revenues are reported when earned and expenditures when materials or services are received. All intercompany accounts and transactions have been eliminated.

**Reporting Entity**

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* which amends Statement No. 14, *The Financial Reporting Entity*, provides guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship with the College. Generally, it requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. The Harrisburg Area Community College Foundation (the "HACC Foundation") and the Wildwood Conference Center Foundation are included in the College's financial statements as component units due to the oversight responsibility of the College in accordance with GASB standards. The criteria used in determining oversight responsibility include financial interdependency, ability to select members of the governing body, ability to designate management, ability to significantly influence operations, and accountability for fiscal matters. In accordance with the provisions of GASB Statement 39, the HACC Foundation is shown as a discretely presented component unit due primarily to the fact that it was organized for the purpose of receiving gifts and grants and to distribute the available funds to, or for the benefit of the College.

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Reporting Entity (Continued)**

Substantially all of HACC Foundation's expenses for scholarships, contributions, and grants flow through as "state and local grants" income on the College's financial statements. The Wildwood Conference Center Foundation does not meet the requirement for discrete presentation and therefore is shown as a blended component unit and included with the activity of the college. Separate financial statements are available for the HACC Foundation by contacting the College's Office of Finance and College Resources, One HACC Drive, Harrisburg, Pennsylvania 17110-2999.

**Financial Statement Presentation**

The College has adopted GASB Statements No. 34 and 35 (as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*), and No. 38, *Certain Financial Statement Note Disclosures*. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a basis to focus on the College as a whole. GASB Statement No. 35 reports equity as "net assets" rather than "fund balance". Net assets are classified into three categories according to external donor restrictions or availability of assets for satisfaction of College obligations. The College's net assets are classified as follows:

- *Invested in capital assets, net of related debt* - This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are included as a component of invested in capital assets, net of related debt.
- *Restricted net assets* – This represents net assets whose use is subject to externally imposed conditions that can be fulfilled by the actions of the College or by the passage of time. The College did not have any restricted net assets as of June 30, 2010 or 2009.
- *Unrestricted net assets* - Unrestricted net assets represent resources derived from student tuition and fees, state and local appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the College to meet current expenses for any purpose.

GASB Statement No. 35 requires the statements of net assets, revenues, expenses, and changes in net assets, and cash flows to be reported on a combined basis. The provisions of Statement No. 35 have been applied to the years presented.

The HACC Foundation follows SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. For the statement of net assets, restricted net assets-expendable is the same classification as temporarily restricted net assets, and restricted net assets – nonexpendable is the same classification as permanently restricted net assets. In addition, the HACC Foundation is considered a non-profit organization and follows FASB pronouncements, not GASB pronouncements. Therefore, it is not subject to the same disclosure requirements as the College.

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Management's Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

These include cash on hand, demand deposits, and, in accordance with GASB Statement No. 9, the College's short-term pooled investments in the Pennsylvania School District Liquid Asset Fund (PSDLAF). For purposes of the statement of net assets, the College considers all highly liquid investments with original maturities of three months or less at time of purchase to be cash equivalents.

**Restricted Cash**

Restricted cash consists of unspent bond proceeds which are designated to be used for the specific projects that were funded by the bonds.

**Investments**

Investments are reported at fair value based on quoted market prices.

**Total Return Policy - HACC Foundation**

The Foundation has adopted a total return policy for its permanently restricted endowment funds and a separate trust was created to maintain the investments for these funds. Based on the policy and the revocable trust agreement, income for permanently restricted funds has been redefined to mean a percentage of the value of the trust. This percentage is determined annually by the Foundation Board and applied to the previous three years' average of the market value of the trust as a whole. The percentage must legally fall within the range of 2% to 7% and was approved to be 4% for the years ended June 30, 2010 and 2009. Actual investment return, net of the 4% spending policy, is added back to the permanently restricted corpus. The purpose of this policy is to smooth out the spending of the funds while maintaining the long term preservation of fund principal as a whole under the assumption that in the long run, the actual income and growth of the fund will be greater than the spending of the fund.

**Inventories**

Inventories are stated at the lower of cost or market, cost being determined using the first-in, first-out method (FIFO).

**Capital Assets**

Buildings and improvements are stated at cost less accumulated depreciation. Equipment is stated at estimated historical cost (based on an appraisal done July 1, 1999, plus actual costs for subsequent purchases) less accumulated depreciation. The College provides for depreciation on the straight-line method over the estimated useful lives of the related assets as shown below. All assets with an individual purchased cost, or fair value if acquired by gift, in excess of \$ 2,000 with an estimated useful life in excess of one year are capitalized. Normal repair and maintenance expenditures are not capitalized because they neither add to the value of the property nor materially prolong its useful life.

<u>Asset Type</u>	<u>Useful Life in Years</u>
Buildings	45
Land improvements	20
Equipment	5-20
Furniture	20

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Long-Term Obligations**

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, bond loss on refinancing, and issuance costs are deferred and amortized over the life of the bonds using the straight line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and bond loss on refinancing. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**Income Taxes**

The College is considered an activity of the Commonwealth of Pennsylvania and is tax-exempt. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The HACC Foundation and Wildwood Conference Center Foundation are exempt organizations under Section 501(c)(3) of the Internal Revenue Code.

**Compensated Absences**

Liability for compensated absences is accounted for in accordance with generally accepted accounting principles, which require entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

The College's full-time employees earn up to a maximum of twenty vacation leave days per year and are entitled to compensation for accumulated, unpaid vacation leave upon termination up to a maximum of forty days. Full-time employees also earn up to 12 sick leave days per year and are entitled to compensation for accumulated unpaid sick leave upon retirement. The maximum payout is for 45 sick days.

The estimate of the liability for the accumulated unpaid sick leave has been calculated using the vesting method. Under that method, the College has identified the accrued sick leave benefit earned to date by each employee, determined the cost of that benefit by reference to the benefit provisions and the current rates paid by the College, and estimated the probability of the payment of that benefit to employees upon retirement.

The estimated expense incurred for vacation leave and sick leave is recorded as a component of fringe benefits and payroll taxes on the statement of revenues, expenses, and changes in net assets.

**Classification of Revenues**

The College has classified its revenues as either operating or non-operating revenues according to the following criteria:

- *Operating Revenues* - Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises; (3) most Federal, state, local, and nongovernmental grants and contracts; and (4) sales and service of educational activities.

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Classification of Revenues (Continued)**

- *Nonoperating revenues* - Nonoperating revenues include activities that have the characteristics of non-exchange transactions (in which the College receives value without directly giving equal value in return), such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB No. 34, such as state and local appropriations and investment income.

**Accounts Receivable**

Accounts receivable relate to transaction involving student tuition and fee billings for semesters in which services are provided, governmental appropriations, grants and contracts, financial aid, and other miscellaneous transactions.

**Allowance for Doubtful Accounts**

It is the College's policy to provide for future losses on uncollectible accounts, contracts, grants, and loans receivable based on an evaluation of the underlying account, contract, grant and loan balances, the historical collectability experienced by the College on such balances and such other factors which, in the College's judgment, require consideration in estimating doubtful accounts.

**Use of Restricted Net Assets**

The College has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Generally, the College attempts to utilize restricted funds first when practicable.

**Scholarship Allowances**

Student tuition and fee revenues, and certain other revenues from students, are reported in the statement of revenues, expenses and changes in net assets. Scholarship allowances are reported separately on the Statement of Revenues, Expenses and Changes in Net Assets, and the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the student's behalf.

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid such as loans, funds provided to students as awarded by third parties, and the Federal Family Educational Loan (FFEL) Program is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as either operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a College-wide basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

**Pension Plans**

Employees of the College are provided pension benefits through one of three available cost-sharing, multiple-employer retirement plans. The College follows the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and GASB Statement No. 50, *Pension Disclosures*. GASB Statement No. 27 and No. 50 establish standards for the measurement, recognition, and display of pension expense and related liabilities, assets, and note disclosures. See Note 11 for additional information.

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2010 and 2009

**NOTE 2 – CASH AND CASH EQUIVALENTS**

**Reconciliation of cash, cash equivalents and investments as shown on the Statement of Net Assets:**

	<u>2010</u>	<u>2009</u>
Cash on hand	\$ 11,150	\$ 12,050
Carrying amount of deposits	67,959,750	45,930,156
Carrying amount of CD's	12,963,686	18,913,187
Carrying amount of Commonfund	<u>419,721</u>	<u>1,026,645</u>
<b>Total cash and investments</b>	<u>\$ 81,354,307</u>	<u>\$ 65,882,038</u>
Cash and cash equivalents	\$ 42,374,195	\$ 29,318,102
Restricted cash and cash equivalents	25,596,705	16,624,104
Short-term Investments	<u>13,383,407</u>	<u>19,939,832</u>
<b>Total cash and investments per statement of net assets</b>	<u>\$ 81,354,307</u>	<u>\$ 65,882,038</u>

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The College does not have a written policy for custodial credit risk. At year-end, the carrying amount of the College's deposits was \$67,959,750 and the bank balance was \$57,333,458. As of June 30, 2010, \$55,583,458 of the College's bank balance was exposed to custodial credit risk as follows:

	<u>2010</u>	<u>2009</u>
Uninsured and uncollateralized	\$ 1,814	\$ -
Uninsured and collateral held by the pledging bank's trust department but not in the College's name	<u>55,581,644</u>	<u>59,484,810</u>
<b>Total</b>	<u>\$ 55,583,458</u>	<u>\$ 59,484,810</u>

Included in investments on the statement of net assets are CD's invested at various financial institutions in the amount of \$12,963,686, all with maturities of greater than three months. Also included is the College's investment in Commonfund in the amount of \$419,721. These are considered deposits for purposes of this disclosure.

The College also has petty cash of \$11,150 included in the cash and cash equivalents amount on the Statement of Net Assets.

**NOTE 3 – INVESTMENTS**

**Credit Risk**

Included on the statement of net assets are pooled investments in the Pennsylvania School District Liquid Asset Fund (PSDLAF) of \$6,927,844 (as cash and cash equivalents). This fund consists of short term money market instruments and seeks to maintain a constant net asset value of \$1 per share. At June 30, 2010, the College's investment in PSDLAF was rated AAA by Standard & Poor's Investors Service.

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**NOTE 3 – INVESTMENTS (CONTINUED)**

**Credit Risk (Continued)**

As of June 30, 2010, the College's investment of \$419,721 in the Commonfund - Intermediate Term Fund was rated AA by Standard & Poor's Investors Service.

**Interest Rate Risk**

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. Investments in PSDLAF are not subject to interest rate risk as the funds are accessible on a daily basis and the interest rates change daily based on market conditions.

As of June 30, 2010, the College had the following investment that was subject to interest rate risk. The College does not have a written policy for interest rate risk.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Commonfund - Intermediate Term Fund	Effective Duration 1.3 years	\$ 419,721

**Market Risk**

The College's investments are exposed to various risks, such as interest rate, market, currency and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near-term would materially affect investment assets reported in the financial statements.

Investments of the HACC Foundation as of June 30, 2010 and 2009 are comprised of the following:

	<b>2010</b>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gains (Losses)</u>
Money market funds	\$ 754,462	\$ 754,462	\$ -
Equities	10,753,277	10,815,149	61,872
Mutual funds	9,290,821	8,600,164	(690,657)
Government obligations	816,793	827,011	10,218
Corporate bonds	1,940,053	1,969,109	29,056
<b>Total</b>	<u>\$ 23,555,406</u>	<u>\$ 22,965,895</u>	<u>\$ (589,511)</u>
	<b>2009</b>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gains (Losses)</u>
Money market funds	\$ 1,582,996	\$ 1,582,996	\$ -
Equities	10,586,357	9,964,616	(621,741)
Mutual funds	8,005,203	6,690,420	(1,314,783)
Government obligations	837,320	865,256	27,936
Corporate bonds	1,045,163	1,044,400	(763)
<b>Total</b>	<u>\$ 22,057,039</u>	<u>\$ 20,147,688</u>	<u>\$ (1,909,351)</u>

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**NOTE 4 – ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following at June 30:

	<u>College</u>		<u>HACC Foundation</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Student tuition and fees	\$ 5,903,176	\$ 7,054,638	\$ -	\$ -
Allowance for doubtful accounts	(959,999)	(750,000)	-	-
Grants and contracts receivable	3,704,125	1,121,884	-	-
Bookstore receivables	988,734	1,448,054	-	-
Other receivables	819,137	652,322	54,078	64,485
Pledges receivables (net)	-	-	2,419,066	3,861,369
Charitable remainder annuity trust held by outside party	-	-	74,554	164,389
<b>Total</b>	<b><u>\$ 10,455,173</u></b>	<b><u>\$ 9,526,898</u></b>	<b><u>\$ 2,547,698</u></b>	<b><u>\$ 4,090,243</u></b>

Bookstore receivables include \$963,906 and \$1,421,544 in vendor credit memos at June 30, 2010 and 2009, respectively.

Pledges receivable of the Foundation, representing donor promises to give, have been discounted to their present value assuming their respective terms and a discount rate of 2.97% at June 30, 2010 and 2.7% at June 30, 2009. The unamortized discount was \$268,992 and \$281,096 at June 30, 2010 and 2009, respectively.

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**NOTE 5 – CAPITAL ASSETS**

The following is a summary of capital asset transactions of the College for the years ended June 30, 2010 and 2009:

	2010			
	Beginning Balance	Additions	Transfers and Retirements	Ending Balance
<b>Assets not being depreciated</b>				
Land	\$ 3,283,478	\$ 1,252,723	\$ -	\$ 4,536,201
Construction in process	1,722,029	1,789,798	(1,611,126)	1,900,701
Total assets not being depreciated	<u>5,005,507</u>	<u>3,042,521</u>	<u>(1,611,126)</u>	<u>6,436,902</u>
<b>Assets being depreciated</b>				
Building	81,695,377	2,935,682	-	84,631,059
Improvements				
Land	1,701,999	611,939	-	2,313,938
Building	33,179,534	13,833,914	-	47,013,448
Leaseholds	14,733,976	771,645	-	15,505,621
Instructional equipment	29,821,847	2,157,702	(64,166)	31,915,383
Non-instructional equipment	15,478,230	1,714,151	(101,275)	17,091,106
Total assets being depreciated	<u>176,610,963</u>	<u>22,025,033</u>	<u>(165,441)</u>	<u>198,470,555</u>
Less accumulated depreciation				
Building	(25,353,112)	(2,002,598)	-	(27,355,710)
Improvements				
Land	(500,568)	(100,464)	-	(601,032)
Building	(9,863,949)	(1,729,504)	-	(11,593,453)
Leaseholds	(2,349,413)	(755,429)	-	(3,104,842)
Instructional equipment	(14,535,727)	(1,865,788)	57,288	(16,344,227)
Non-instructional equipment	(13,551,286)	(1,586,971)	91,974	(15,046,283)
Total accumulated depreciation	<u>(66,154,055)</u>	<u>(8,040,754)</u>	<u>149,262</u>	<u>(74,045,547)</u>
Total assets being depreciated	<u>110,456,908</u>	<u>13,984,279</u>	<u>(16,179)</u>	<u>124,425,008</u>
<b>Total capital assets</b>	<u>\$ 115,462,415</u>	<u>\$ 17,026,800</u>	<u>\$ (1,627,305)</u>	<u>\$ 130,861,910</u>
	2009			
	Beginning Balance	Additions	Transfers and Retirements	Ending Balance
<b>Assets not being depreciated</b>				
Land	\$ 1,895,022	\$ 1,388,456	\$ -	\$ 3,283,478
Construction in process	2,228,906	1,722,030	(2,228,907)	1,722,029
Total assets not being depreciated	<u>4,123,928</u>	<u>3,110,486</u>	<u>(2,228,907)</u>	<u>5,005,507</u>
<b>Assets being depreciated</b>				
Building	73,623,218	8,072,159	-	81,695,377
Improvements				
Land	1,540,374	161,625	-	1,701,999
Building	23,247,441	9,932,093	-	33,179,534
Leaseholds	10,110,128	4,623,848	-	14,733,976
Instructional equipment	27,916,506	1,918,214	(12,873)	29,821,847
Non-instructional equipment	13,545,431	2,258,341	(325,542)	15,478,230
Total assets being depreciated	<u>149,983,098</u>	<u>26,966,280</u>	<u>(338,415)</u>	<u>176,610,963</u>
Less accumulated depreciation				
Building	(23,527,792)	(1,825,320)	-	(25,353,112)
Improvements				
Land	(417,759)	(82,809)	-	(500,568)
Building	(8,487,621)	(1,376,328)	-	(9,863,949)
Leaseholds	(1,819,021)	(530,392)	-	(2,349,413)
Instructional equipment	(12,803,369)	(1,744,892)	12,534	(14,535,727)
Non-instructional equipment	(12,191,334)	(1,670,437)	310,485	(13,551,286)
Total accumulated depreciation	<u>(59,246,896)</u>	<u>(7,230,178)</u>	<u>323,019</u>	<u>(66,154,055)</u>
Total assets being depreciated	<u>90,736,202</u>	<u>19,736,102</u>	<u>(15,396)</u>	<u>110,456,908</u>
<b>Total capital assets</b>	<u>\$ 94,860,130</u>	<u>\$ 22,846,588</u>	<u>\$ (2,244,303)</u>	<u>\$ 115,462,415</u>

Capitalized interest was \$435,734 and \$155,640 for the years ending June 30, 2010 and 2009, respectively.

Depreciation expense was \$8,040,754 and \$7,230,178 for the years ended June 30, 2010 and 2009, respectively.

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 6 – OTHER ASSETS**

Other assets of the College at June 30 consisted of:

	<b>2010</b>	<b>2009</b>
Prepaid expenses	\$ 2,506,447	\$ 2,205,311
Bond issue costs	1,584,044	1,000,198
Accumulated amortization – bond issue costs	(300,392)	(227,893)
<b>Total</b>	<b>\$ 3,790,099</b>	<b>\$ 2,997,616</b>

Amortization expense was \$66,185 and \$56,185 for the years ended June 30, 2010 and 2009, respectively.

**NOTE 7 – LONG-TERM LIABILITIES**

	<b>2010</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>	<b>Current Portion</b>	<b>Long-term Portion</b>
Capital leases payable	\$ 29,352	\$ 100,500	\$ (43,836)	\$ 86,016	\$ 39,969	\$ 46,047
General obligation bonds and notes payable						
Series of 1995 D	1,845,000	-	(895,000)	950,000	950,000	-
Series of 2004	16,760,000	-	(2,115,000)	14,645,000	2,175,000	12,470,000
Series of 2005	3,470,000	-	(530,000)	2,940,000	550,000	2,390,000
Series of 2008	26,275,000	-	(1,105,000)	25,170,000	1,155,000	24,015,000
Series of 2009	17,390,000	-	-	17,390,000	5,000	17,385,000
Series of 2009A	-	12,610,000	-	12,610,000	1,230,000	11,380,000
Series of 2010	-	15,280,000	-	15,280,000	-	15,280,000
Revolving loan	1,089,976	-	(308,312)	781,664	316,943	464,721
Bond premium	40,357	-	(2,686)	37,671	2,686	34,985
Bond discount	(243,128)	(297,848)	17,813	(523,163)	(30,971)	(492,192)
Loss on refinancing	(352,612)	-	20,032	(332,580)	(20,032)	(312,548)
Total leases and bonds/ notes payable:	66,303,945	27,692,652	(4,961,989)	89,034,608	6,373,595	82,661,013
Other liabilities:						
Compensated absences						
Vacation leave	3,049,790	380,679	(121,603)	3,308,866	166,509	3,142,357
Sick leave	2,504,858	269,103	(26,803)	2,747,158	46,364	2,700,794
Early retirement payable	829	-	-	829	829	-
Total other liabilities	5,555,477	649,782	(148,406)	6,056,853	213,702	5,843,151
<b>Total long-term liabilities</b>	<b>\$ 71,859,422</b>	<b>\$ 28,342,434</b>	<b>\$ (5,110,395)</b>	<b>\$ 95,091,461</b>	<b>\$ 6,587,297</b>	<b>\$ 88,504,164</b>

**HARRISBURG AREA COMMUNITY COLLEGE**  
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**June 30, 2010 and 2009**

**NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)**

	2009					
	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Long-term Portion
Capital leases payable	\$ 3,631	\$ 35,656	\$ (9,935)	\$ 29,352	\$ 8,391	\$ 20,961
General obligation bonds and notes payable						
Series of 1995 D	2,945,000	-	(1,100,000)	1,845,000	895,000	950,000
Series of 2004	18,790,000	-	(2,030,000)	16,760,000	2,115,000	14,645,000
Series of 2005	3,985,000	-	(515,000)	3,470,000	530,000	2,940,000
Series of 2007	17,240,000	-	(17,240,000)	-	-	-
Series of 2008	-	26,275,000	-	26,275,000	1,105,000	25,170,000
Series of 2009	-	17,390,000	-	17,390,000	-	17,390,000
Revolving loan	65,563	1,341,191	(316,778)	1,089,976	308,312	781,664
Bond premium	43,043	-	(2,686)	40,357	2,686	37,671
Bond discount	(21,351)	(233,425)	11,648	(243,128)	(24,280)	(218,848)
Loss on refinancing	(100,001)	(262,134)	9,523	(352,612)	(9,523)	(343,089)
Total leases and bonds/ notes payable:	<u>42,950,885</u>	<u>44,546,288</u>	<u>(21,193,228)</u>	<u>66,303,945</u>	<u>4,930,586</u>	<u>61,373,359</u>
Other liabilities:						
Compensated absences						
Vacation leave	2,695,866	480,504	(126,580)	3,049,790	166,711	2,883,079
Sick leave	2,359,103	178,033	(32,278)	2,504,858	66,714	2,438,144
Early retirement payable	32,836	-	(32,007)	829	829	-
Total other liabilities	<u>5,087,805</u>	<u>658,537</u>	<u>(190,865)</u>	<u>5,555,477</u>	<u>234,254</u>	<u>5,321,223</u>
<b>Total long-term liabilities</b>	<u>\$ 48,038,690</u>	<u>\$ 45,204,825</u>	<u>\$ (21,384,093)</u>	<u>\$ 71,859,422</u>	<u>\$ 5,164,840</u>	<u>\$ 66,694,582</u>

**Bonds Payable**

Revenue bonds payable to the State Public School Building Authority (SPSBA) at June 30, 2010 and 2009 consisted of the following:

	2010	2009
1995 D, issued \$ 16,685,000 in June 1995; at a fixed rate of 4.50% - 6.25%, interest and principal payable semi-annually through April 2011.	\$ 950,000	\$ 1,845,000
2004, issued \$26,530,000 in July 2004; at a fixed rate of 2.25% - 5.25%, interest and principal payable semi-annually through April 2025.	14,645,000	16,760,000
2005, issued \$5,435,000 in July 2005; at a fixed rate of 3.00% - 4.00%, interest and principal payable semi-annually through April 2015.	2,940,000	3,470,000
2008, issued \$26,275,000 in December 2008; at a fixed rate of 4.00% - 5.75%, interest and principal payable semi-annually through October 2029.	25,170,000	26,275,000
2009, issued \$17,390,000 in May 2009; at a fixed rate of 2.00 - 4.50%, interest and principal payable semi-annually through October 2027.	17,390,000	17,390,000
2009A, issued \$12,610,000 in November 2009; at a fixed rate of 2.00% - 4.00%; interest and principal payable semi-annually through October 2024.	12,610,000	-
2010, issued \$ 15,280,000 in May 2010; at a fixed rate of 3.00 - 4.00% interest and principal payable semi-annually through October 2030.	<u>15,280,000</u>	<u>-</u>
<b>Total bonds payable</b>	<u>\$ 88,985,000</u>	<u>\$ 65,740,000</u>

**HARRISBURG AREA COMMUNITY COLLEGE**  
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**NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)**

The bonds are guaranteed by a municipal bond insurance policy. In addition, the College has pledged to include debt service payments due each fiscal year in its budget for such fiscal year.

**Note Payable**

The revolving loan note payable of \$781,664 to the State Public School Building Authority (SPSBA) dated April 1, 2008 has a fixed interest rate of 2.78% and a maturity date of December 1, 2012. Interest and principal are payable semi-annually beginning June 1, 2008. This note was fully drawn as of June 30, 2009 for the full amount of \$1,575,000.

*Future Maturities*

Under an agreement with the Commonwealth of Pennsylvania, 50%-52% of the principal and interest on outstanding SPSBA bonds eligible for state reimbursement will be paid by the Commonwealth on a reimbursement basis. The combined aggregate amounts of maturities of all bonds and notes are as follows:

Year Ending June 30,	State Share		College Share		Total		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2011	\$ 2,546,249	\$ 999,293	\$ 3,835,693	\$ 2,540,941	\$ 6,381,942	\$ 3,540,234	\$ 9,922,176
2012	2,135,396	895,945	3,560,396	2,469,020	5,695,792	3,364,965	9,060,757
2013	2,204,465	823,979	3,664,465	2,354,291	5,868,930	3,178,270	9,047,200
2014	2,215,000	745,488	3,720,000	2,229,363	5,935,000	2,974,851	8,909,851
2015	1,617,500	662,876	3,807,500	2,088,482	5,425,000	2,751,358	8,176,358
2016-2020	6,795,000	2,500,615	16,150,000	8,603,390	22,945,000	11,104,005	34,049,005
2021-2025	5,717,500	1,127,066	16,417,500	5,154,540	22,135,000	6,281,606	28,416,606
2026-2030	1,990,000	134,877	12,160,000	1,734,414	14,150,000	1,869,291	16,019,291
2031	-	-	1,230,000	27,675	1,230,000	27,675	1,257,675
<b>Total</b>	<b>\$ 25,221,110</b>	<b>\$ 7,890,139</b>	<b>\$ 64,545,554</b>	<b>\$ 27,202,116</b>	<b>\$ 89,766,664</b>	<b>\$ 35,092,255</b>	<b>\$ 124,858,919</b>

**NOTE 8 – OPERATING LEASES**

**Capital Leases:**

The College has entered into capital leases for certain equipment and vehicles. At June 30, the leased assets are as follows:

	<u>2010</u>	<u>2009</u>
Amount capitalized	\$ 378,876	\$ 278,376
Accumulated amortization	(311,466)	(242,593)
<b>Net book value</b>	<b>\$ 67,410</b>	<b>\$ 35,783</b>

Amortization expense of \$68,873 and \$39,247 for 2010 and 2009, respectively, is included with depreciation expense.

The future minimum lease payments under capital leases as of June 30, 2010 are as follows:

2011	\$ 51,832
2012	51,832
2013	<u>8,183</u>
Total minimum lease payments	111,847
Less amount representing interest	<u>25,831</u>
<b>Present value of future minimum lease payments</b>	<b>\$ 86,016</b>

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 8 – OPERATING LEASES (CONTINUED)**

***Operating Leases:***

The College has entered into noncancelable operating leases for certain campus facilities and equipment. Minimum lease payments in future years are as follows:

	<u>Lancaster</u>	<u>Other</u>	<u>Total</u>
2011	\$ 2,889,371	\$ 4,794,702	\$ 7,684,073
2012	2,967,528	4,856,067	7,823,595
2013	3,044,757	4,918,796	7,963,553
2014	3,125,213	3,749,242	6,874,455
2015-2019	17,022,643	15,935,680	32,958,323
2020-2024	14,634,124	8,732,341	23,366,465
2025-2028	<u>2,707,254</u>	<u>-</u>	<u>2,707,254</u>
<b>Total minimum lease payments</b>	<u><b>\$46,390,890</b></u>	<u><b>\$42,986,828</b></u>	<u><b>\$89,377,718</b></u>

The total rent under operating leases for the years ended June 30, 2010 and 2009 was \$8,651,808 and \$ 9,826,552, respectively.

**NOTE 9 – DUE TO THE COMMONWEALTH OF PENNSYLVANIA**

Included in accounts payable and accrued expenses are amounts due to the Commonwealth of Pennsylvania as of June 30, representing the outstanding deficiency of reimbursable operating and capital expenditures compared to the advances received from the Commonwealth. The following table presents outstanding amounts due to the Commonwealth by originating fiscal year:

	<u>2010</u>	<u>2009</u>
2005-2006	\$ 57,823	\$ 57,823
2008-2009	-	23,367
2009-2010	<u>463,858</u>	<u>-</u>
<b>TOTAL</b>	<u><b>\$ 521,681</b></u>	<u><b>\$ 81,190</b></u>

Under the terms of the Commonwealth Community College Funding Legislation (Act 46), annual audits are prepared by each College's external audit firm and submitted to the Department of Education for review. Such audits could lead to reimbursement of appropriated funds to the Commonwealth. College management believes that reimbursements, if any, will be immaterial.

**NOTE 10 – RISK MANAGEMENT**

The College is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets, errors, and omissions, injuries to employees and students, and natural disasters.

The College has purchased commercial insurance to cover general and professional liability, directors and officers liability, worker's compensation, accident insurance, flood, unemployment compensation, and employees' health coverage. For these insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or three prior years.

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**NOTE 10 – RISK MANAGEMENT**

The College is self-insured for dental coverage. The liability for estimated claims at June 30, 2010 represents three months of claims paid. Changes in the College's claims liability amount for the years ended June 30 were:

	<b>2010</b>	<b>2009</b>
Beginning balance	\$ 141,001	\$ 131,663
Claims made/changes in estimates	600,219	573,340
Claims paid	<u>(592,976)</u>	<u>(564,002)</u>
Ending Balance	<u>\$ 148,244</u>	<u>\$ 141,001</u>

**NOTE 11 – PENSION BENEFITS**

**Pension Plans**

Substantially all of the employees of the College are covered by one of three multi-employer contributory pension plans: the Teachers Insurance and Annuity Association – College Retirement Equities fund (TIAA-CREF), the Commonwealth of Pennsylvania Public School Employees' Retirement System (PSERS), or the Commonwealth of Pennsylvania State Employees' Retirement System (SERS).

The Public School Employees' Retirement System ("PSERS") and the Commonwealth of Pennsylvania State Employees' Retirement System ("SERS") are governmental cost-sharing multiple-employer defined benefit plans. PSERS provides retirement and disability benefits, legislative mandated *ad hoc* cost-of-living adjustments, and health care insurance premium assistance to qualifying annuitants. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. 8101-8535) is the authority by which benefit provisions are established and may be amended. PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Public School Employees' Retirement System, P. O. Box 125, Harrisburg, Pennsylvania 17108-0125. SERS also provides retirement, death, and disability benefits, and legislative mandated *ad hoc* cost-of-living adjustments. Article II of the Commonwealth of Pennsylvania's Constitution assigns the authority to establish and amend the benefit provisions of the plan to the General Assembly. SERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the Plan. A copy of the report may be obtained by writing to Commonwealth of Pennsylvania State Employees' Retirement System, P. O. Box 1147, Harrisburg, Pennsylvania 17108.

The contribution policy for PSERS is established in the Public School Employees' Retirement Code and requires contributions by active members, employers and the Commonwealth. Most active members contribute at a rate of 5.25% of their qualifying compensation. However, effective January 1, 2002, employees could make an election to increase from 5.25% to 6.50%. Members joining the PSERS on or after July 22, 1983 contribute at a rate of 6.25%. However, effective January 1, 2002, employees could make an election to increase from 6.25% to 7.50%. The contribution rate for the College is an actuarially determined rate. The rate at June 30, 2010 and 2009 was 2.39% and 2.38% of annual covered payroll, respectively. The College's contributions to PSERS for the years ended June 30, 2010, 2009, and 2008, were \$97,111, \$99,199, and \$112,571, respectively, equal to the required contractual contribution. At the time of transition to GASB No. 27, *Accounting for Pensions by State and Local Governmental Employers*, there was no pension liability or asset for the PSERS plan.

**HARRISBURG AREA COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 and 2009**

**NOTE 11 – PENSION BENEFITS (CONTINUED)**

**Pension Plans (Continued)**

The contribution policy for SERS, as established by the SERS Board, requires contributions by active members and employers. As of January 1, 2002, active members could make an election to increase contributions from a rate of 5% to 6.25% of their qualifying compensation. The contribution rate for the College is an actuarially determined rate, which was 2.52% for Class A and 3.15% for Class AA for the year ended June 30, 2010, and 2.64% for Class A and 3.29% for Class AA for the year ended June 30, 2009, respectively. The College's contributions to SERS for the years ended June 30, 2010, 2009, and 2008, were \$221,951, \$201,926, and \$205,039, respectively, equal to the required contractual contribution. At the time of transition to GASB No. 27, there was no pension liability or asset for the SERS plan.

The Teachers Insurance and Annuity Association-College Retirement and Equity Fund (TIAA-CREF) is a cost-sharing, multiple-employer defined contribution plan in which employees are eligible to participate. In a defined contribution plan, benefits depend on amounts contributed to the Plan plus investment earnings. Employer and employee contribution rates are established by statute. The contribution policy, as established by statute, requires contributions by active members and employers. Active members contribute at a rate of 5% of their qualifying compensation; the College's contribution rate for each of the years ended June 30, 2010, 2009, and 2008 was 10% of qualifying compensation. In addition, employees may contribute to TIAA-CREF through the Supplemental Retirement Annuity.

The contributions to TIAA-CREF for the years ended June 30 were as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
College	\$ 4,637,261	\$ 4,326,599	\$ 3,832,288
Employees	4,305,828	3,926,128	3,835,192

**NOTE 12 – POSTEMPLOYMENT HEALTHCARE PLAN**

GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was adopted during the year ending June 30, 2009. The provisions of this standard are being implemented prospectively.

***Plan Description***

The College has a healthcare plan for retired employees, which is a single employer defined benefit healthcare plan administered by the College. The Plan provides medical and prescription drug coverage for both retiree and family. To continue coverage upon retirement, the retiree must reimburse the College 100% of the College's cost of coverage. After age 65, the coverage shall change to a Medicare Supplement Plan with a Medicare Part D Prescription Drug rider or with the plan prescription drug at an adjusted premium.

***Funding Policy***

The contribution requirements of plan members and the College are established and may be amended by the College. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the College. For fiscal year 2010, the College contributed \$55,179 in the form of additional premiums for active employees based on implicit rates for retired employees to the Plan.

**HARRISBURG AREA COMMUNITY COLLEGE**  
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**NOTE 12 – POSTEMPLOYMENT HEALTHCARE PLAN (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 (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 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 thirty years. The following table shows the components of the College's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the College's net OPEB obligation to the Plan:

	<u>2010</u>	<u>2009</u>
Annual required contribution (ARC)	\$ 272,899	\$ 256,170
Interest on Net OPEB Obligation	5,462	-
Adjustment to ARC	<u>(7,451)</u>	<u>-</u>
Annual OPEB Cost	270,910	256,170
Employer contributions made	<u>(55,179)</u>	<u>(134,796)</u>
Increase in net OPEB obligation	215,731	121,374
Net OPEB obligation – beginning of the year	121,374	-
Net OPEB obligation – end of the year	<u>\$ 337,105</u>	<u>\$ 121,374</u>

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2010 is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>6/30/10 Net OPEB Obligation</u>
2010	\$ 270,910	20%	\$ 215,731
2009	256,170	53%	121,374

**Funded Status and Funding Progress**

As of July 1, 2009, the most recent actuarial valuation date, the Plan had the following funding status and progress:

<u>Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Unfunded AAL</u>		<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
		<u>(UAAL)</u>	<u>AAL (UAAL)</u>			
7/1/2009	\$ -	\$ 1,400,030	\$ 1,400,030	0.00%	\$ 48,710,163	2.87%
7/1/2007	-	1,488,936	1,488,936	0.00%	41,908,646	3.55%

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, will present multiyear trend information in the future, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 12 – POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)**

***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 the 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, 2009 actuarial valuation, the entry age normal cost method was used. The actuarial assumption included a 4.5% investment rate of return (net of administrative expenses), annual salary increase of 4.25-7%, and an annual healthcare cost trend rate of 8% in 2009, decreasing 0.5% to an ultimate rate of 5.5% in 2014 and later. The actuarial value of assets was based on the fair value of assets, of which there are none. The UAAL is being amortized using a level dollar method over a 30 year open amortization period.

**NOTE 13 – CONTINGENCIES AND COMMITMENTS**

***Contingencies***

The nature of the educational industry is such that, from time to time, the College is exposed to various risks of loss related to torts; alleged negligence; acts of discrimination; breach of contract; labor disputes; disagreements arising from the interpretation of laws or regulations; theft of, damage to and/or destruction of assets; errors and omissions; injuries to employees and natural disasters. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system. Management does not expect that the resolution of any other outstanding claims and litigation, of which there are several being defended by the College, will have a material adverse effect on the financial position of the College.

***Lancaster Campus Phase II Construction Disputes***

Harrisburg Area Community College (“HACC”) leases the Lancaster Campus from Pitney Road Partners, LLC (“Pitney”) under an agreement that includes an option to purchase. Under this agreement, Pitney agreed to construct a new building at the Lancaster Campus and contracted with Warfel Construction Company (“Warfel”). Pitney financed the construction of the Lancaster Campus through the issuance of bonds backed by a letter of credit issued through a consortium of banks (“Lender Group”). Although the contract between Pitney and Warfel contained a guaranteed maximum price, disputes arose between them regarding the final construction costs. The dispute proceeded to arbitration, and after extensive settlement negotiations, Warfel agreed to accept a total of \$4.9 million. Of that amount, approximately \$2.1 million was covered by the balance held in a project fund. Pitney and HACC each agreed to contribute an amount slightly in excess of \$1.4 million, achieving the total cash payment to Warfel of \$4.9 million. The \$1.4 million agreed to by HACC was accrued at June 30, 2007 and was paid in August 2007, with an offset to other assets pending the outcome of the arbitration process and the final determination of exercising the option to purchase.

Pitney initiated litigation against HACC to recover the additional construction costs awarded by the arbitration panel to Warfel, as well as other alleged damages. Indirectly as a result of the disputes and litigations pending, the trustee called one of the series of bonds, resulting in the drawdown of the letter of credit supporting the bonds and a default under the financing arrangements. The Lender Group agreed to forebear on any claims or potential claims against Pitney and HACC arising out of the alleged defaults in the financial agreements, while Pitney and HACC resolve their disputes. Pitney and HACC agreed to arbitrate all disputes between them, including which party is responsible for the cost overruns paid to Warfel and for the claims of the Lender Group. The arbitration process between HACC and Pitney still is in the early stages, and consequently, the full amount of claims or damages being asserted by Pitney cannot be determined.

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**NOTE 13 – CONTINGENCIES AND COMMITMENTS (CONTINUED)**

**Commitments**

As of June 30, 2010, the College had commitments for the following projects:

	<b>Total Estimated Costs 2010</b>	<b>Total Costs Paid as of June 30, 2010</b>
Campus Square	\$ 2,202,127	\$ 1,843,784
Midtown Welding	496,940	306,774
Harrisburg Campus Renovations	6,874,420	2,365,091
York renovation	5,690,809	4,520,410
York purchase	13,582,327	12,914,254
CCTA Phase II	6,622,579	5,549,825
PSC	14,800,334	-
Harrisburg - Evans Pool	147,800	73,755
Nursing Lab Renovation	141,450	11,940
Lebanon Renovations	<u>2,713,684</u>	<u>255,404</u>
<b>Total</b>	<b><u>\$ 53,272,470</u></b>	<b><u>\$ 27,841,237</u></b>

**NOTE 14 – STATE APPROPRIATIONS**

The following shows the detail of state appropriations earned for the years ended June 30:

	<b>2010</b>	<b>2009</b>
Included in non-operating revenue:		
Social security reimbursement	\$ 2,798,885	\$ 2,603,140
Tuition reimbursement	<u>29,950,785</u>	<u>33,029,935</u>
Sub-total	<u>32,749,670</u>	<u>35,633,075</u>
Included in capital contributions:		
Debt reimbursement	3,339,206	3,369,652
Lease reimbursements	3,649,846	4,517,084
Capital contribution	<u>50,000</u>	<u>50,000</u>
Sub-total	<u>7,039,052</u>	<u>7,936,736</u>
<b>Total</b>	<b><u>\$ 39,788,723</u></b>	<b><u>\$ 43,569,811</u></b>

**NOTE 15 – NET ASSETS**

**College**

The following shows the details of net assets invested in capital assets, net of related debt, at June 30:

	<b>2010</b>	<b>2009</b>
Capital assets, net	\$130,861,910	\$115,462,411
Bonds and notes payable, net	(88,948,592)	(66,274,593)
Capital lease payable	(86,016)	(29,352)
Unspent bond proceeds	<u>25,596,705</u>	<u>16,624,104</u>
<b>Total</b>	<b><u>\$ 67,424,007</u></b>	<b><u>\$ 65,782,570</u></b>

The remaining net assets of the College are considered unrestricted.

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**NOTE 15 – NET ASSETS (CONTINUED)**

**HACC Foundation**

The Foundation's unrestricted net assets consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Designated for endowment purposes	\$ 830,253	\$ 777,079
Undesignated	<u>1,455,446</u>	<u>1,843,128</u>
<b>Total</b>	<u>\$ 2,285,699</u>	<u>\$ 2,620,207</u>

Temporarily restricted net assets (restricted - expendable) are available for the following purposes or periods at June 30:

	<u>2010</u>	<u>2009</u>
Provide support for future years' activities	<u>\$10,093,629</u>	<u>\$ 9,364,833</u>

Permanently restricted net assets (restricted - non-expendable) are to provide a permanent endowment restricted for various purposes as follows at June 30:

	<u>2010</u>	<u>2009</u>
Scholarships and awards	\$10,016,936	\$11,001,002
Academic support	1,269,670	784,999
Other	<u>2,022,504</u>	<u>397,999</u>
<b>Total</b>	<u>\$13,309,110</u>	<u>\$12,184,000</u>

**NOTE 16 – EXPENSES BY FUNCTIONAL CLASSIFICATION**

The College reports expenses by natural classification in the Statement of Revenues, Expenses and Changes in Net Assets. The following are the College's expenses reported by Functional Classification for the years ended June 30:

<u>Function</u>	<u>2010</u>	<u>2009</u>
Instruction	\$ 64,616,548	\$ 60,831,044
Research	15,145	25,316
Public Support	76,096	125,890
Academic support	9,241,903	6,500,543
Student services	14,572,889	13,309,685
Institutional support	24,382,939	22,928,367
Operation and maintenance of plant	25,236,951	28,078,105
Student aid	101,349,114	12,314,661
Auxilliary	<u>13,194,760</u>	<u>11,152,846</u>
	<u>\$252,686,345</u>	<u>\$ 155,266,457</u>

**REQUIRED SUPPLEMENTAL INFORMATION**

**HARRISBURG AREA COMMUNITY COLLEGE  
OPEB (Other Post Employment Benefit Plan)  
UNAUDITED REQUIRED SCHEDULE OF FUNDING PROGRESS  
June 30, 2010 and 2009**

**Schedule of Funding Progress for Other Post Employment Benefits**

The *Governmental Accounting Standards Board (GASB)* has issued *Statement Number 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*. The following schedule is required and represents the first year of funded status and funding progress for Harrisburg Area Community College. Please refer to Note 12 of the Notes to the financial statements on pages 31-33 for a more detailed description of Harrisburg Area Community College's reporting of Other Post Employment Benefits (OPEB) for fiscal year 2010.

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Unfunded AAL		Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
		(UAAL)	AAL (UAAL)			
7/1/2009	\$ -	\$ 1,400,030	\$ 1,400,030	0.00%	\$ 48,710,163	2.87%
7/1/2007	-	1,488,936	1,488,936	0.00%	41,908,646	3.55%

**SUPPLEMENTAL INFORMATION**

**HARRISBURG AREA COMMUNITY COLLEGE**  
**SCHEDULES OF EXPENSES BY FUNCTIONAL CLASSIFICATION – PRIMARY INSTITUTION**  
**Years Ended June 30, 2010 and 2009**

		2010						
FUNCTIONAL CLASSIFICATION	NATURAL CLASSIFICATION							
	Salaries and Wages	Fringe Benefits	Supplies & Other Expenses	Professional & Purchased Services	Utilities	Depreciation	Scholarships	Total
Instruction	\$ 47,099,082	\$ 10,860,663	\$ 4,218,856	\$ 1,908,686	\$ 100,058	\$ -	\$ 429,203	\$ 64,616,548
Research	210	32	3,138	11,765	-	-	-	15,145
Public support	27,839	4,349	30,543	13,365	-	-	-	76,096
Academic support	5,595,966	1,725,774	1,541,179	378,984	-	-	-	9,241,903
Student services	9,839,612	3,419,014	661,814	641,806	-	-	10,643	14,572,889
Institutional support	9,171,767	4,893,342	2,845,048	4,988,802	41	2,483,939	-	24,382,939
Operation and maintenance of Plant	3,348,202	1,466,621	10,045,660	1,325,798	3,426,720	5,623,950	-	25,236,951
Student aid	625,586	-	79,507,542	-	-	-	21,215,986	101,349,114
Auxiliary Enterprises	1,389,043	483,246	11,164,110	86,717	71,644	-	-	13,194,760
Total operating expenses	<u>77,097,307</u>	<u>22,853,041</u>	<u>110,017,890</u>	<u>9,355,923</u>	<u>3,598,463</u>	<u>8,107,889</u>	<u>21,655,832</u>	252,686,345
Interest expense								<u>2,654,304</u>
<b>Total expenses</b>								<b><u>\$ 255,340,649</u></b>

**HARRISBURG AREA COMMUNITY COLLEGE**  
**SCHEDULES OF EXPENSES BY FUNCTIONAL CLASSIFICATION – PRIMARY INSTITUTION**  
**Years Ended June 30, 2010 and 2009**

2009

FUNCTIONAL CLASSIFICATION	NATURAL CLASSIFICATION							
	Salaries and Wages	Fringe Benefits	Supplies & Other Expenses	Professional & Purchased Services	Utilities	Depreciation	Scholarships	Total
Instruction	\$ 44,117,762	\$ 10,216,393	\$ 4,188,197	\$ 2,006,300	\$ -	\$ -	\$ 302,392	\$ 60,831,044
Research	-	-	2,700	22,616	-	-	-	25,316
Public support	27,444	2,597	77,590	18,259	-	-	-	125,890
Academic support	3,892,738	1,122,533	1,445,873	39,399	-	-	-	6,500,543
Student services	8,977,315	3,006,748	713,294	597,205	-	-	15,123	13,309,685
Institutional support	9,214,721	4,525,490	1,724,390	4,534,667	-	2,929,099	-	22,928,367
Operation and maintenance of Plant	3,193,629	1,368,477	14,132,992	1,614,090	3,411,653	4,357,264	-	28,078,105
Student aid	507,790	-	-	-	-	-	11,806,871	12,314,661
Auxiliary Enterprises	1,184,967	384,628	9,451,102	111,833	20,316	-	-	11,152,846
Total operating expenses	<u>71,116,366</u>	<u>20,626,866</u>	<u>31,736,138</u>	<u>8,944,369</u>	<u>3,431,969</u>	<u>7,286,363</u>	<u>12,124,386</u>	155,266,457
Interest expense								<u>2,535,264</u>
<b>Total expenses</b>								<u>\$ 157,801,721</u>