

**HARRISBURG AREA COMMUNITY
COLLEGE FOUNDATION**

**ANNUAL
FINANCIAL
REPORT**

JUNE 30, 2009

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harrisburg Area Community College Foundation
Harrisburg, Pennsylvania

We have audited the accompanying statements of financial position of the Harrisburg Area Community College Foundation (a nonprofit organization) as of June 30, 2009 and 2008, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Harrisburg Area Community College Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harrisburg Area Community College Foundation as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
October 15, 2009

HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

June 30, 2009 and 2008

	2009	2008 (As Restated)
ASSETS		
Cash and cash equivalents	\$ 469,558	\$ 472,463
Accrued interest receivable	64,485	86,953
Prepaid expenses	2,178	2,404
Contributions receivable, net	4,025,758	3,265,644
Investments	<u>20,147,688</u>	<u>24,815,751</u>
 Total assets	 <u>\$ 24,709,667</u>	 <u>\$ 28,643,215</u>
 LIABILITIES		
Deferred revenue	\$ 20,000	\$ 46,125
Due to Harrisburg Area Community College	118,314	249,603
Current portion of long-term debt	100,000	100,000
Long-term debt	<u>302,313</u>	<u>402,312</u>
 Total liabilities	 <u>540,627</u>	 <u>798,040</u>
 NET ASSETS		
Unrestricted	1,843,128	3,589,152
Unrestricted - board designated	<u>777,079</u>	<u>926,054</u>
	2,620,207	4,515,206
 Temporarily restricted	 9,364,833	 11,556,719
Permanently restricted	<u>12,184,000</u>	<u>11,773,250</u>
 Total net assets	 <u>24,169,040</u>	 <u>27,845,175</u>
 Total liabilities and net assets	 <u>\$ 24,709,667</u>	 <u>\$ 28,643,215</u>

The Notes to Financial Statements are an integral part of these statements.

HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2009 and 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
			2009	
REVENUES AND OTHER SUPPORT				
Contributions and grants	\$ 181,724	\$ 2,080,317	\$ 2,848,693	\$ 5,110,734
Investment income	103,010	631,002	(214,292)	519,720
Realized and unrealized gains (losses) on investments	(860,371)	(1,725,021)	(2,062,305)	(4,647,697)
Support fee	327,556	0	0	327,556
Net assets released from restriction/reclassification	<u>3,339,530</u>	<u>(3,178,184)</u>	<u>(161,346)</u>	<u>0</u>
 Total revenues and other support	 <u>3,091,449</u>	 <u>(2,191,886)</u>	 <u>410,750</u>	 <u>1,310,313</u>
EXPENSES				
Program Services				
Scholarships and awards	957,404	0	0	957,404
Special initiatives	400,000	0	0	400,000
Other endowment programs	544,504	0	0	544,504
Capital programs	<u>1,846,358</u>	<u>0</u>	<u>0</u>	<u>1,846,358</u>
Total program services	<u>3,748,266</u>	<u>0</u>	<u>0</u>	<u>3,748,266</u>
 Supporting Services				
Management and general	724,202	0	0	724,202
Fundraising	<u>513,981</u>	<u>0</u>	<u>0</u>	<u>513,981</u>
Total supporting services	<u>1,238,182</u>	<u>0</u>	<u>0</u>	<u>1,238,182</u>
 Total expenses	 <u>4,986,448</u>	 <u>0</u>	 <u>0</u>	 <u>4,986,448</u>
 Change in net assets	 (1,894,999)	 (2,191,886)	 410,750	 (3,676,135)
 Net assets at beginning of year, as restated	 <u>4,515,206</u>	 <u>11,556,719</u>	 <u>11,773,250</u>	 <u>27,845,175</u>
 Net assets at end of year	 <u>\$ 2,620,207</u>	 <u>\$ 9,364,833</u>	 <u>\$ 12,184,000</u>	 <u>\$ 24,169,040</u>

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
	2008 (As Restated)			
REVENUES AND OTHER SUPPORT				
Contributions and grants	\$ 203,210	\$ 1,908,879	\$ 887,760	\$ 2,999,849
Investment income	201,153	724,567	(52,302)	873,418
Realized and unrealized gains (losses) on investments	(424,252)	(557,425)	(633,366)	(1,615,043)
Support fee	351,395	0	0	351,395
Net assets released from restriction/reclassification	<u>6,544,263</u>	<u>(6,370,756)</u>	<u>(173,507)</u>	<u>0</u>
Total revenues and other support	<u>6,875,769</u>	<u>(4,294,735)</u>	<u>28,585</u>	<u>2,609,619</u>
EXPENSES				
Program Services				
Scholarships and awards	941,574	0	0	941,574
Special initiatives	400,000	0	0	400,000
Other endowment programs	215,713	0	0	215,713
Capital programs	<u>5,515,057</u>	<u>0</u>	<u>0</u>	<u>5,515,057</u>
Total program services	<u>7,072,344</u>	<u>0</u>	<u>0</u>	<u>7,072,344</u>
Supporting Services				
Management and general	809,630	0	0	809,630
Fundraising	<u>522,324</u>	<u>0</u>	<u>0</u>	<u>522,324</u>
Total supporting services	<u>1,331,954</u>	<u>0</u>	<u>0</u>	<u>1,331,954</u>
Total expenses	<u>8,404,298</u>	<u>0</u>	<u>0</u>	<u>8,404,298</u>
Change in net assets	(1,528,529)	(4,294,735)	28,585	(5,794,679)
Net assets at beginning of year	<u>6,043,735</u>	<u>15,851,454</u>	<u>11,744,665</u>	<u>33,639,854</u>
Net assets at end of year, as restated	<u>\$ 4,515,206</u>	<u>\$ 11,556,719</u>	<u>\$ 11,773,250</u>	<u>\$ 27,845,175</u>

The Notes to Financial Statements are an integral part of these statements.

HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2009

	Program Services				Supporting Services		Total
	Scholarships and Awards	Special Initiatives	Other Endowment Programs	Capital Programs	Management and General	Fundraising	
Salaries	\$ 0	\$ 0	\$ 0	\$ 0	\$ 164,335	\$ 94,315	\$ 258,649
Employee benefits	0	0	0	0	47,181	20,677	67,858
Payroll taxes	0	0	0	0	12,404	7,219	19,623
Total salaries and related expenses	0	0	0	0	223,920	122,211	346,130
Scholarships and awards	957,404	0	0	0	0	0	957,404
Debt service	0	0	0	283,145	0	0	283,145
Capital expenditures	0	0	0	608,611	0	0	608,611
Special initiatives	0	400,000	0	0	0	0	400,000
Other endowment disbursements	0	0	544,504	0	0	0	544,504
Support fee	0	0	0	0	327,559	0	327,559
Postage	0	0	0	0	1,396	593	1,989
Telephone	0	0	0	0	1,678	511	2,189
Printing	0	0	0	0	5,847	0	5,847
Supplies	0	0	0	0	(687)	6,938	6,251
Advertising	0	0	0	0	3,547	0	3,547
Professional fees	0	0	0	0	60,321	254,981	315,302
Meeting expenses	0	0	0	0	6,705	86,114	92,819
Travel and training	0	0	0	0	7,916	2,473	10,389
Subscriptions and memberships	0	0	0	0	5,915	0	5,915
Special events	0	0	0	0	10,701	40,160	50,861
Interest expense	0	0	0	0	26,888	0	26,888
Transferred to HACC	0	0	0	954,602	40,662	0	995,264
Miscellaneous	0	0	0	0	1,834	0	1,834
Total expenses	<u>\$ 957,404</u>	<u>\$ 400,000</u>	<u>\$ 544,504</u>	<u>\$ 1,846,358</u>	<u>\$ 724,202</u>	<u>\$ 513,981</u>	<u>\$ 4,986,448</u>

The Notes to Financial Statements are an integral part of this statement.

HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2008

	Program Services				Supporting Services		Total
	Scholarships and Awards	Special Initiatives	Other Endowment Programs	Capital Programs	Management and General	Fundraising	
Salaries	\$ 0	\$ 0	\$ 0	\$ 0	\$ 161,107	\$ 105,065	\$ 266,172
Employee benefits	0	0	0	0	58,268	23,079	81,347
Payroll taxes	0	0	0	0	12,719	8,195	20,914
Total salaries and related expenses	0	0	0	0	232,094	136,339	368,433
Scholarships and awards	941,574	0	0	0	0	0	941,574
Debt service	0	0	0	831,472	0	0	831,472
Capital expenditures	0	0	0	344,260	0	0	344,260
Special initiatives	0	400,000	0	0	0	0	400,000
Other endowment disbursements	0	0	215,713	0	0	0	215,713
Support fee	0	0	0	0	351,395	0	351,395
Postage	0	0	0	0	2,481	492	2,973
Telephone	0	0	0	0	1,351	322	1,673
Printing	0	0	0	0	54,049	2,637	56,686
Supplies	0	0	0	0	1,826	2,430	4,256
Advertising	0	0	0	0	14,433	0	14,433
Professional fees	0	0	0	0	26,053	293,058	319,111
Meeting expenses	0	0	0	0	12,888	39,787	52,675
Travel and training	0	0	0	0	790	6,511	7,301
Subscriptions and memberships	0	0	0	0	17,874	0	17,874
Special events	0	0	0	0	11,794	40,226	52,020
Interest expense	0	0	0	0	32,782	0	32,782
Transferred to HACC	0	0	0	4,339,325	49,582	0	4,388,907
Miscellaneous	0	0	0	0	238	522	760
Total expenses	\$ 941,574	\$ 400,000	\$ 215,713	\$ 5,515,057	\$ 809,630	\$ 522,324	\$ 8,404,298

The Notes to Financial Statements are an integral part of this statement.

HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from donors (temporary and unrestricted)	\$ 2,022,993	\$ 1,646,526
Cash received from investment activities	307,735	496,131
Cash payments to employees	(346,130)	(368,433)
Cash payments to vendors for supplies and services	(577,283)	(559,708)
Cash payments for interest	(26,888)	(32,782)
Cash payments for scholarships and awards	(974,659)	(992,176)
Cash payments for special initiative grants	(400,000)	(400,000)
Cash payments for other endowment programs	(539,075)	(215,445)
Cash payments for capital programs	(1,927,527)	(5,410,584)
Cash used by operating activities	<u>(2,460,834)</u>	<u>(5,836,471)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(10,764,073)	(8,686,085)
Proceeds from sale/maturities of investments	<u>10,784,439</u>	<u>9,727,426</u>
Cash provided by investing activities	<u>20,366</u>	<u>1,041,341</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of contributions restricted for long term purposes	2,303,109	1,065,993
Collection of investment income restricted for long term purposes	234,453	384,041
Principal payments on notes payable	(99,999)	(100,001)
Cash provided by financing activities	<u>2,437,563</u>	<u>1,350,033</u>
Net decrease in cash and cash equivalents	(2,905)	(3,445,097)
Beginning cash and cash equivalents	<u>472,463</u>	<u>3,917,560</u>
Ending cash and cash equivalents	<u>\$ 469,558</u>	<u>\$ 472,463</u>

The Notes to Financial Statements are an integral part of these statements.

HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION

STATEMENTS OF CASH FLOWS (Continued)

Years Ended June 30, 2009 and 2008

	2009	2008
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	(\$ 3,676,135)	(\$ 5,794,679)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Realized and unrealized loss on investments	4,647,697	1,615,043
Collection of contributions restricted for long term purposes	(2,303,109)	(1,065,993)
Collection of investment income restricted for LT purposes	(234,453)	(384,041)
(Increase) decrease in operating assets:		
Contributions receivable	(760,114)	(325,820)
Interest receivable	22,468	6,754
Prepaid expenses	226	(2,404)
Increase (decrease) in operating liabilities:		
Deferred revenue	(26,125)	38,475
Due to Harrisburg Area Community College	(131,289)	76,194
Net cash used by operating activities	<u>(\$ 2,460,834)</u>	<u>(\$ 5,836,471)</u>
NONCASH INVESTING AND FINANCING TRANSACTIONS		
Realized and unrealized losses on investments	<u>(\$ 4,647,697)</u>	<u>(\$ 1,615,043)</u>

The Notes to Financial Statements are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Nature of Activities

The Harrisburg Area Community College Foundation (the “Foundation”) was formed under the non-profit corporation law of the Commonwealth of Pennsylvania in June 1985. The Foundation was organized for the purpose of receiving gifts, grants, and bequests, and to distribute the available funds to, or for the benefit of, Harrisburg Area Community College (the “College”).

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Financial Statement Presentation

The Foundation reports 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.

The Foundation follows Statement of Financial Accounting Standards (SFAS) No. 136, “Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others”. The Foundation and the College are considered financially interrelated organizations under SFAS No. 136. As a result, the Foundation is required to account for contributions as net assets rather than a liability to the College.

Promises to Give

Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as revenue in the period the promises are received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. The Foundation uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior year’s experience and management’s analysis of specific promises made. Conditional promises to give are recognized when the conditions on which they depend are substantially met. There were no conditional promises to give at June 30, 2009 or 2008.

Note 1. Significant Accounting Policies (Continued)

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets.

Market Risks

The Foundation'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 investments reported in the financial statements.

In addition, recent economic uncertainty and market events have led to unprecedented volatility in currency, commodity, credit and equity markets, culminating in failures of some banking and financial services firms and government intervention to solidify others. These recent events underscore the level of investment risk associated with the current economic conditions, and accordingly the level of risk in the Foundation's investments.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Foundation considers all unrestricted, highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. All assets held under the provisions of trust agreements are classified as investments.

Total Return Policy

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, 2009 and 2008. 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 the fund 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.

Support Fee

During the year ended June 30, 2008, the Foundation adopted a policy of charging a support fee to endowment accounts to provide for future unrestricted funds with which to support the Foundation's office operations. The 1.5% support fee is in addition to the 4% total return policy described above and is calculated based on the market value of each endowment fund (restricted or unrestricted) on July 1 of each year. Funds that have no balance on July 1, are completely expended during the year, or have nominal market values at the end of the year, along with funds related to the major gift campaign, are not charged support fees.

Note 1. Significant Accounting Policies (Continued)

Charitable Remainder Annuity Trust

The Foundation is the beneficiary of several trusts established by a donor. The Foundation will receive the value of the trusts upon the death of the donor. The receivable and contribution revenue are recorded on the date of the establishment of the trust and are discounted based on an estimated earnings rate and life expectancy of the donor. These trusts are included in contributions receivable on the statements of financial position.

Uncertain Tax Positions

In June 2006, the FASB released FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*. When FIN 48 is implemented, the Foundation will utilize different recognition thresholds and measurement requirements when compared to prior technical literature. On December 30, 2008, the FASB Staff issued FASB Staff Position (FSP) FIN48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, which deferred the implementation of the provisions of FIN 48 until fiscal years beginning after December 15, 2008. As such, the Foundation has not implemented those provisions in the 2008/2009 financial statements.

Since the provisions of FIN 48 have not been implemented in accounting for uncertain tax positions, the Foundation continues to utilize its prior policy of accounting for these positions. If it is probable that an issue will affect the Foundation's tax exempt status, disclosure in the financial statements is required. Using that guidance, as of June 30, 2009, the Foundation has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Concentrations

The Foundation maintains its bank deposit accounts at local financial institutions. At times, the balances may exceed federally insured limits, which management considers to be a normal business risk.

The Foundation is supported primarily through donations and investment returns. Loss or reduction of these funding sources could have a significant impact on the Foundation's operations.

Functional Expenses

The functional expense classifications on the Statements of Functional Expense of Scholarships and Awards, Debt Service, Capital Expenditures, and Other Endowment Disbursements represent funds forwarded to the College for those purposes. The "Transferred to HACC" caption represents funds collected for the Select Medical and Dental Hygiene Campaigns. The balances for these campaigns were transferred to the College during 2007/2008 and 2008/2009. All other Statement of Functional Expense captions represent reimbursements to the College for operational expenditures of the Foundation.

Advertising Costs

The Foundation expenses advertising costs as incurred, which amounted to \$ 3,547 and \$ 14,433 for 2009 and 2008, respectively.

Note 2. Contributions Receivable

Contributions receivable, representing donor promises to give, have been discounted to their present value assuming their respective terms and a discount rate of 2.7% at June 30, 2009 and 3.5% at June 30, 2008. The unamortized discount was \$ 281,096 and \$ 345,004 at June 30, 2009 and 2008, respectively. The discounted pledges and related allowance for uncollectible contributions, estimated by management, are scheduled to be collected as follows:

Unconditional promises are expected to be collected in:

	2009	2008
Less than one year	\$ 1,239,866	\$ 996,860
One year to five years	2,515,743	1,736,815
Over five years	<u>313,752</u>	<u>575,572</u>
	4,069,361	3,309,247
Less allowance for uncollectible contributions	(43,603)	(43,603)
Total	<u>\$ 4,025,758</u>	<u>\$ 3,265,644</u>

Contributions receivable consist of the following:

	2009	2008
Pledges receivable		
Select Medical Health Education Pavilion	\$ 55,171	\$ 318,997
York Center	48,704	115,942
Alex Grass School of Business Leadership	1,007,428	1,154,145
Major gifts campaign	2,124,867	1,157,932
Public Safety Center Partners	158,171	0
Other multi-year pledges	<u>510,631</u>	<u>407,756</u>
Total pledges receivable	3,904,972	3,154,772
Less allowance for uncollectible contributions	(43,603)	(43,603)
Charitable remainder annuity trusts held by outside party	<u>164,389</u>	<u>154,475</u>
	<u>\$ 4,025,758</u>	<u>\$ 3,265,644</u>

The Foundation has been the recipient of three charitable remainder annuity trusts over the past several years. The charitable remainder annuity trusts require quarterly payments to the beneficiary of 7% to 9% of the original trust corpus. The values recorded as assets are discounted to net present value using discount rates of 6% to 7%.

Note 3. Investments

Investments of the Foundation as of June 30 are comprised of the following:

	Cost	Fair Value	Unrealized Gains (Losses)
			2009
Money market funds	\$ 1,582,996	\$ 1,582,996	\$ 0
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	<u>1,045,163</u>	<u>1,044,400</u>	<u>(763)</u>
	<u>\$ 22,057,039</u>	<u>\$ 20,147,688</u>	<u>(\$ 1,909,351)</u>

Note 3. Investments (Continued)

	Cost	Fair Value	Unrealized Gains (Losses)
		2008	
Money market funds	\$ 1,137,489	\$ 1,137,489	\$ 0
Equities	11,245,177	11,715,074	469,897
Mutual funds	8,834,928	9,159,150	324,222
Government obligations	1,943,676	1,990,526	46,850
Corporate bonds	845,817	813,512	(32,305)
	<u>\$ 24,007,087</u>	<u>\$ 24,815,751</u>	<u>\$ 808,664</u>

Investment related expenses were \$ 116,164 and \$ 155,781 for the years ended June 30, 2009 and 2008, respectively. Investment income is reduced by these expenses in the statements of activities.

Note 4. Endowments

The Foundation's endowments consist of individual funds established to provide scholarships and benefits for students of Harrisburg Area Community College and investment income. The endowments include both donor-restricted endowment funds and funds designated by the Foundation to function as an endowment. Net assets associated with endowment funds, including funds designated by the Foundation to function as endowments, are classified and reported as unrestricted, temporarily restricted, or permanently restricted net assets based on the existence or absence of donor-imposed restrictions. The classification is based on the Board's interpretation of Pennsylvania's statutes that govern such endowments and its interpretations of donor intent and the related endowment bylaws.

The Foundation considers several factors when making a determination to appropriate or accumulate donor-restricted endowment funds. These factors include the duration and preservation of the fund, the mission of the Foundation, the purpose of any donor restrictions, general economic conditions, the possible effects of inflation and deflation, the expected total return from income and the appreciation of investments, and other resources.

The Board of Directors annually makes a determination of the level of funding that will be provided to the Foundation. The Board has the ability to provide funding from the annual investment income and has established a policy of receiving distributions equal to 4% of the average market value of the endowments for the last three years. Any undistributed investment income, including all gains and losses, are added to the endowment's temporarily restricted principal.

The endowments are invested consistent with an investment policy statement that is monitored by the Board of Directors. To satisfy the long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and income (interest and dividends). Funds in the endowment are primarily invested in equities and fixed income securities or mutual funds. The investment policy sets investment ranges at 65% equities and 35% fixed income securities with a 10% variance.

Note 4. Endowments (Continued)

Endowment net assets consisted of the following as of June 30, 2009 and 2008:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2009				
Board designated endowment funds	\$ 777,079	\$ 0	\$ 0	\$ 777,079
Donor restricted endowment funds	<u>0</u>	<u>9,364,833</u>	<u>12,184,000</u>	<u>21,548,833</u>
	<u>\$ 777,079</u>	<u>\$ 9,364,833</u>	<u>\$ 12,184,000</u>	<u>\$ 22,325,912</u>

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2008				
Board designated endowment funds	\$ 926,054	\$ 0	\$ 0	\$ 926,054
Donor restricted endowment funds	<u>0</u>	<u>11,556,719</u>	<u>11,773,250</u>	<u>23,329,969</u>
	<u>\$ 926,054</u>	<u>\$ 11,556,719</u>	<u>\$ 11,773,250</u>	<u>\$ 24,256,023</u>

The changes in endowment net assets for the years ended June 30, 2009 and 2008 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at July 1, 2007	\$ 823,431	\$ 15,851,454	\$ 11,744,665	\$ 28,419,550
Investment return:				
Investment income	14,782	724,567	(52,302)	687,047
Realized gains (losses)	10,166	135,464	146,160	291,790
Net depreciation (unrealized)	(43,864)	(692,890)	(779,526)	(1,516,280)
Total investment return	(18,916)	167,141	(685,668)	(537,443)
Contributions	143,946	1,908,880	887,760	2,940,586
Support fees	(12,319)	(326,310)	0	(338,629)
Distributions to the Foundation for expenditure	(10,088)	(6,212,953)	0	(6,223,041)
Transfers of endowments based on donor instructions	<u>0</u>	<u>(5,232)</u>	<u>232</u>	<u>(5,000)</u>
Endowment net assets at July 1, 2008, as reported	926,054	11,382,980	11,946,989	24,256,023
Prior period adjustment to correct support fees	<u>0</u>	<u>173,739</u>	<u>(173,739)</u>	<u>0</u>
Endowment net assets at July 1, 2008, as restated	926,054	11,556,719	11,773,250	24,256,023
Investment return:				
Investment income	16,121	631,002	(214,292)	432,831
Realized gains (losses)	(66,261)	(737,250)	(820,271)	(1,623,782)
Net depreciation (unrealized)	(77,413)	(987,771)	(1,242,034)	(2,307,218)
Total investment return	(127,553)	(1,094,019)	(2,276,597)	(3,498,169)
Contributions	26,024	2,080,317	2,848,693	4,955,034
Support fees	(13,248)	(134,293)	(170,978)	(318,519)
Distributions to the Foundation for expenditure	(34,198)	(3,034,919)	0	(3,069,117)
Transfers of endowments based on donor instructions	<u>0</u>	<u>(8,972)</u>	<u>9,632</u>	<u>660</u>
Endowment net assets June 30, 2009	<u>\$ 777,079</u>	<u>\$ 9,364,833</u>	<u>\$ 12,184,000</u>	<u>\$ 22,325,912</u>

Note 5. Long-Term Debt

In January 2005 the Foundation entered into a promissory note with Wachovia Bank, N.A. for \$ 1,000,000. The note is payable over 10 years in consecutive annual payments of principal in the amount of \$ 100,000, and bears interest at 5.75%. Accrued interest shall be paid monthly. This money was borrowed for the purpose of financing a contribution to Harrisburg Hotel Corporation for the implementation of the Olewine culinary program teaching school at the BRICCO restaurant at International Place. A pledge receivable of \$ 1,000,000 to the Foundation has also been recorded and will be used to pay off the note with Wachovia Bank, N.A. This pledge is being paid on an accelerated time frame by the donor and, in turn, the loan is being paid in advance, in order to minimize the interest expense incurred by the Foundation.

Maturities on long-term debt are as follows:

2010	\$	100,000
2011		100,000
2012		100,000
2013		100,000
2014		2,313
Thereafter		<u>0</u>
	\$	<u>402,313</u>

The debt is subject to certain restrictive covenants, including maintenance of a \$ 2,000,000 unrestricted undesignated net asset balance.

Note 6. Net Assets

The Foundation's board of directors has chosen to place the following limitations on unrestricted net assets at June 30:

	2009	2008
Designated for endowment purposes	\$ 777,079	\$ 926,054
Undesignated	<u>1,843,128</u>	<u>3,589,152</u>
	<u>\$ 2,620,207</u>	<u>\$ 4,515,206</u>

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

	2009	2008
Provide support for future years' activities	<u>\$ 9,364,833</u>	<u>\$ 11,556,719</u>

Permanently restricted net assets are to provide a permanent endowment restricted for various purposes as follows at June 30:

	2009	2008
Scholarships and awards	\$ 11,001,002	\$ 10,275,147
Academic support	784,999	976,035
Other	<u>397,999</u>	<u>522,068</u>
	<u>\$ 12,184,000</u>	<u>\$ 11,773,250</u>

Note 7. Pension Plan

The Foundation employees participate in a retirement program through the Teachers Insurance and Annuity Association and/or College Retirement Equities Fund (TIAA – CREF) and are required to contribute 5% of their gross earnings. Costs are actuarially determined by TIAA – CREF, and are currently funded by employer contributions at 10% and employee contributions. Employer contributions for the years ended June 30, 2009 and 2008 were \$ 22,122 and \$ 21,676, respectively.

Note 8. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based upon management’s judgment and past experience.

Note 9. Tax Exempt Status

The Internal Revenue Service has determined that the Harrisburg Area Community College Foundation is an organization described in Section 501(c)(3) of the Internal Revenue Code and is therefore exempt from federal income tax under Section 509(a)(3) of the Internal Revenue Code, and is not subject to federal excise taxes.

Note 10. Related Parties

Harrisburg Area Community College is deemed to be a related party to the Harrisburg Area Community College Foundation due to the oversight responsibility of the College and because the Foundation’s primary purpose is to raise funds to benefit the College. The amount due to the College at June 30, 2009 and 2008 represents unpaid amounts related to special initiative grants for prior years and other operational activity.

The College also directly pays the salaries of Foundation employees. The allocation of employee salaries between the College and the Foundation varies based on their roles and responsibilities. Thus, only the Foundation’s share of these salaries is reflected in these financial statements.

Note 11. Investment Income

Investment income consists of interest and dividends and the total return policy, allocated as follows for the years ending June 30, 2009 and 2008:

Endowment Classification	2009 Allocation			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Unrestricted	\$ 109,144	\$ 0	\$ 0	\$ 109,144
Temporarily restricted	0	197,931	0	197,931
Permanently restricted:				
4% total return policy	0	440,910	0	440,910
Excess (deficiency) of actual investment income to total return policy	0	0	(205,797)	(205,797)
Change to accrued interest	(6,134)	(7,839)	(8,495)	(22,468)
	<u>\$ 103,010</u>	<u>\$ 631,002</u>	<u>(\$ 214,292)</u>	<u>\$ 519,720</u>

Note 11. Investment Income (Continued)

Endowment Classification	2008 Allocation			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Unrestricted	\$ 202,532	\$ 0	\$ 0	\$ 202,532
Temporarily restricted	0	313,709	0	313,709
Permanently restricted:				
4% total return policy	0	416,392	0	416,392
Excess (deficiency) of actual investment income to total return policy	0	0	(52,461)	(52,461)
Change to accrued interest	(1,379)	(5,534)	159	(6,754)
	<u>\$ 201,153</u>	<u>\$ 724,567</u>	<u>(\$ 52,302)</u>	<u>\$ 873,418</u>

Note 12. Fair Value Measurements

SFAS No. 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level One: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level Two: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level Three: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following is a description of the valuation methodologies used for instruments measured at fair value on the Foundation's statement of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investments

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

Note 12. Fair Value Measurements (Continued)

At June 30, 2009, the Foundation had no liabilities subject to fair value reporting requirements. The table below summarizes assets at June 30, 2009 measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total Fair Value Measurement
Investments	<u>\$ 13,984,677</u>	<u>\$ 4,580,015</u>	<u>\$ 0</u>	<u>\$ 18,564,692</u>

Note 13. Prior Period Restatement

During the year ended June 30, 2009, the Foundation determined that the support fee charged to endowments in the previous year had erroneously been applied as a reduction of endowment earnings rather than the principal. As a result, a restatement was necessary between temporarily restricted and permanently restricted net assets as of June 30, 2008, as follows:

	Temporarily Restricted Net Assets	Permanently Restricted Net Assets
June 30, 2008, as originally reported	\$ 11,382,980	\$ 11,946,989
Adjustment	<u>173,739</u>	<u>(173,739)</u>
June 30, 2008, as restated	<u>\$ 11,556,719</u>	<u>\$ 11,773,250</u>

A restatement of net assets released from restriction for the year ended June 30, 2008 was also necessary, as follows:

	Net Assets Released from Restriction	
	Temporarily Restricted	Permanently Restricted
Year ended June 30, 2008, as originally reported	(\$ 6,544,495)	\$ 232
Adjustment	<u>173,739</u>	<u>(173,739)</u>
Year ended June 30, 2008, as restated	<u>(\$ 6,370,756)</u>	<u>(\$ 173,507)</u>

Note 14. Subsequent Events

The Foundation has evaluated events and transactions subsequent to June 30, 2009 through October 15, 2009, the date these financial statements were available to be issued. Based on the definitions and requirements of Generally Accepted Accounting Principles, we have not identified any events that have occurred subsequent to June 30, 2009 and through October 15, 2009 that require recognition or disclosure in the financial statements.