# Audited Financial Statements

June 30, 2016

HACC

Founded in 1964

CENTRAL PENNSYLVANIA'S COMMUNITY COLLEGE

# CONTENTS

Smith Elliott Kearns & Company, LLC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

# INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Harrisburg Area Community College
Harrisburg, Pennsylvania

## *REPORT ON THE FINANCIAL STATEMENTS*

We have audited the accompanying financial statements of the business-type activities of Harrisburg Area Community College (the College), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Harrisburg Area Community College Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

## *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Harrisburg Area Community College as of June 30, 2016 and 2015, and the changes in financial position and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13, schedule of the College's proportionate share of the net pension liability on page 55, schedule of the College's contributions – Pension Plans on page 56, and the required schedule of funding progress - OPEB on page 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Harrisburg Area Community College's basic financial statements. The schedule of expenses by functional classification is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenses by functional classification and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenses by functional classification and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## *OTHER REPORTING REQUIRED BY* GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
December 16, 2016

## *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, 2016, with selected comparative information for the years ended June 30, 2015 and June 30, 2014. 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 Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position, and the Statements of Cash Flows. This MD&A includes comments on each statement and focuses on the activities of the College (Primary Institution) and the Foundation (Component Unit) as a whole.

Additionally, the College has implemented Government Accounting Standards Board Statement No. 14, "The Financial Reporting Entity". Pursuant to the criteria set forth in GASB 14, it was determined that the HACC Foundation, whose sole purpose is to serve the institution by providing resources for scholarships and other college projects, should be treated as a blended unit of the College due in part to the governance structure of the Foundation. The Foundation's financial statements for June 30, 2016 are combined in the financial statements section of the report and are included in the MD&A discussions. Separately issued financial statements are available for the HACC Foundation by contacting Mr. Timothy L. Sandoe, Vice President of Finance, Harrisburg Area Community College, One HACC Drive, Harrisburg, PA 17110-2999.

## *FINANCIAL HIGHLIGHTS*

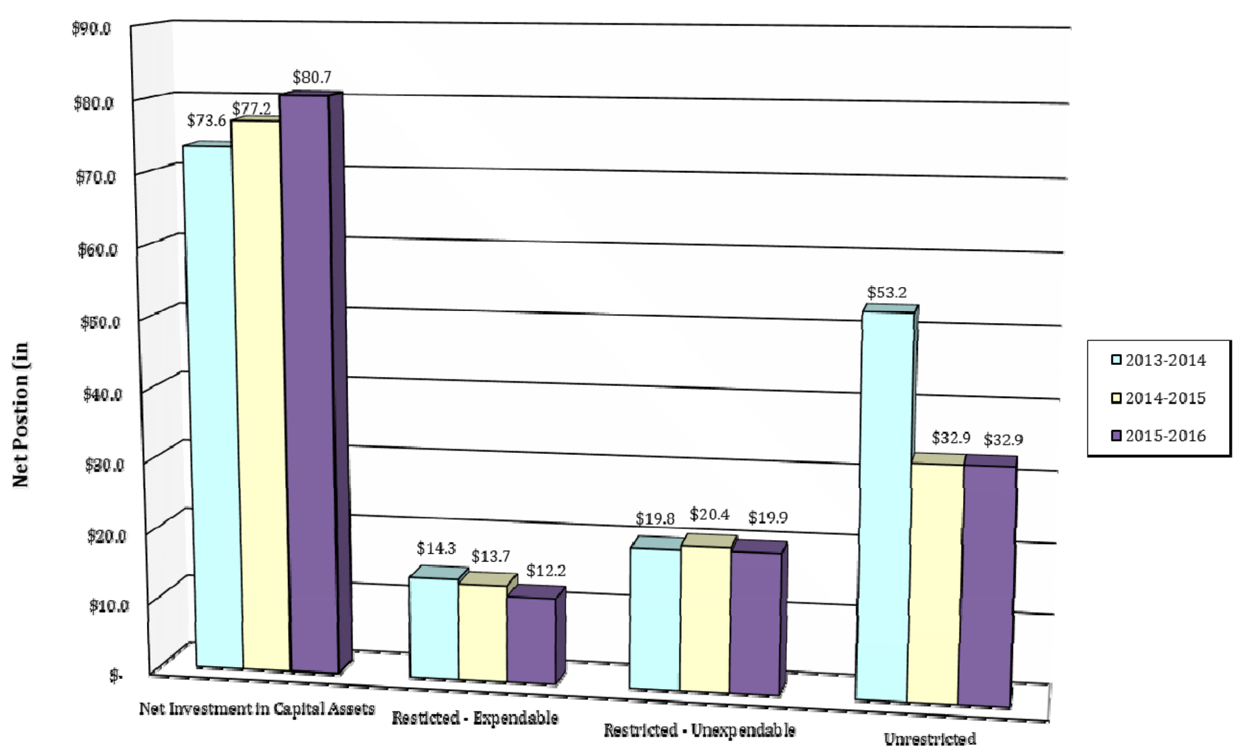
HACC's financial position continues to remain strong as of June 30, 2016. At June 30, 2016, HACC's assets and deferred outflows of resources of $ 321.4 million exceeded its liabilities and deferred inflows of resources of $ 175.7 million by $ 145.7 million, an increase compared to the prior year of $ 1.5 million. At June 30, 2015, assets and deferred outflows of resources of $ 325.0 million exceeded liabilities and deferred inflows of resources of $ 180.8 million by $ 144.2 million, a decrease over the prior year of $ 16.7 million.

The "Net Position", which represents the difference between total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources, are divided into four major categories. The first category, net investment in capital assets, shows the College's equity in property, plant, and equipment that it owns. The second category, restricted-expendable, represents the temporarily restricted portion of the Foundation Endowment. The third category, restricted-nonexpendable, is the permanently restricted portion of the Foundation Endowment. The fourth category, unrestricted net position, is available to use for any lawful purpose of the College and Foundation. The following table and graph summarizes the College's statement of net position by category for the fiscal years ended June 30, 2016, 2015 and 2014.

### Net Position
### As of June 30
### (In millions)

| | 2016 | 2015 | Increase (Decrease) 2015-2016 | 2014 | Increase (Decrease) 2014-2015 |
|---|---|---|---|---|---|
| Net Investment in Capital Assets | $ 80.7 | $ 77.2 | $ 3.5 | $ 73.6 | $ 3.6 |
| Resticted - Expendable | 12.2 | 13.7 | (1.5) | 14.3 | (0.6) |
| Restricted - Unexpendable | 19.9 | 20.4 | (0.5) | 19.8 | 0.6 |
| Unrestricted | 32.9 | 32.9 | - | 53.2 | (20.3) |
| Total Net Position | $ 145.7 | $ 144.2 | $ 1.5 | $ 160.9 | $ (16.7) |

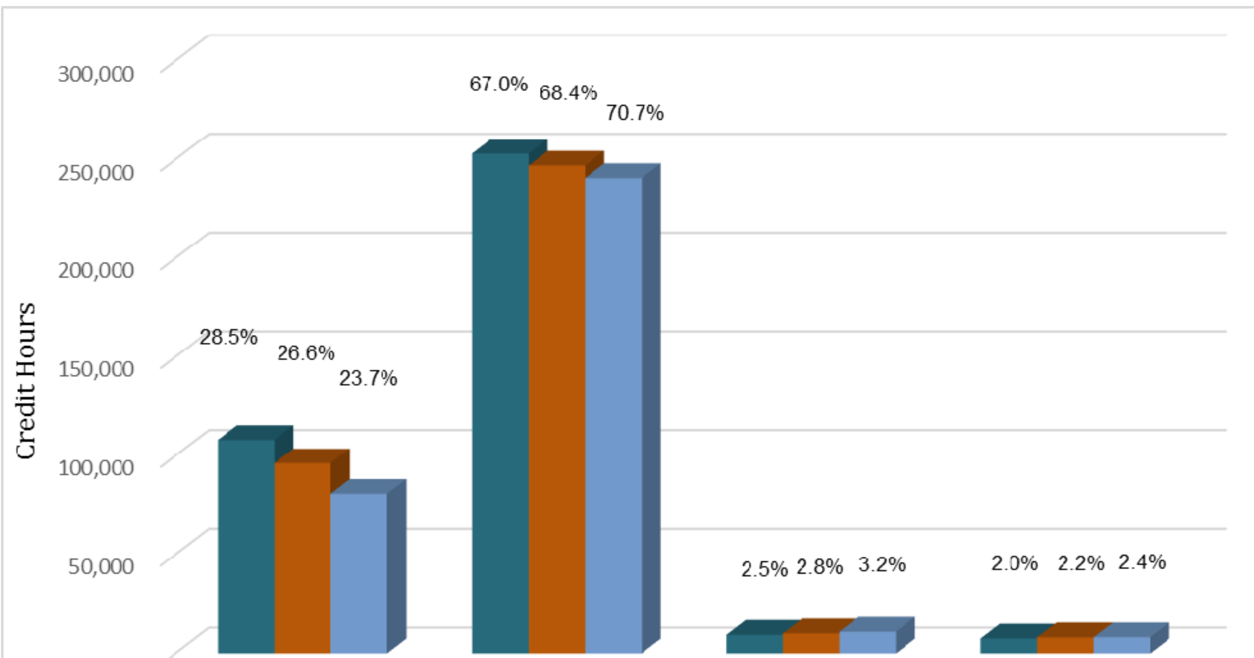
### Comparison of Net Position
### Fiscal Years 2016, 2015 and 2014



## *CREDIT HOUR PRODUCTION*

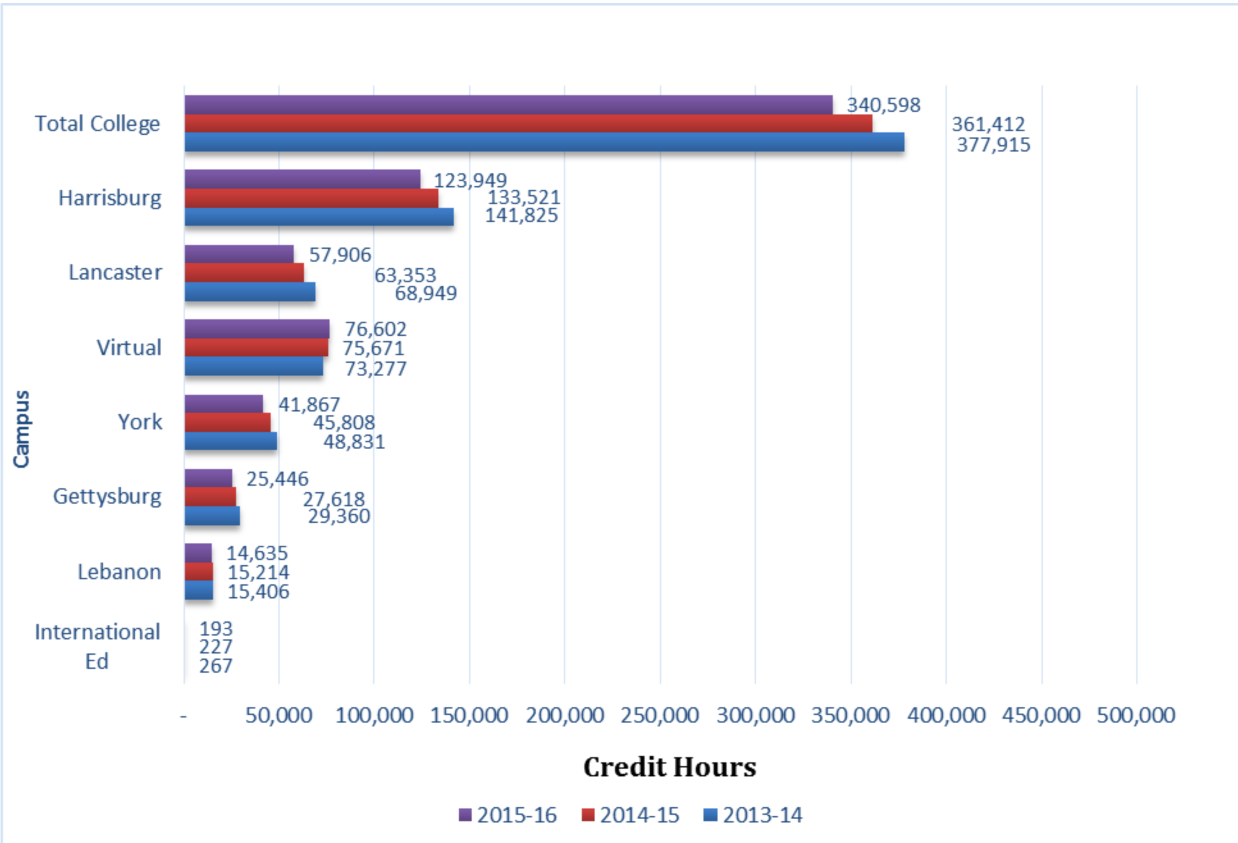
The College experienced a decrease in enrollments of 5.7% (20,813 credit hours) in 2016, 4.4% (16,504 credit hours) in 2015 and 4.9% (19,650 credit hours) due to the continuing effects of the economy and college-going demographic. Total credit hours have gone from 377,915 in 2014 to 340,598 for 2016. In 2016, the College experienced the percentage of non-sponsored student credit hours increase to 70.7% of total enrollments up from 68.4% in 2015 as compared to a decrease in the percentage of sponsoring student credit hours to 23.7% of total enrollments in 2016, down from 26.6% in 2015. Each non-sponsored student paid tuition of $ 207.00 per credit hour in 2016, while a sponsored student paid $ 162.50 per credit hour and received local sponsoring school district support.

**Credit Hour Production by Student Type**




| | Sponsored | Nonsponsored | Out of State | College in HS |
|---|---|---|---|---|
| 2013-14 | 108,001 | 253,040 | 9,370 | 7,504 |
| 2014-15 | 96,223 | 247,013 | 10,062 | 8,114 |
| 2015-16 | 80,858 | 240,711 | 10,892 | 8,137 |

**Credit Hour Production by Campus 2014, 2015 and 2016**




## *STATEMENT OF NET POSITION*

The statement of net position present the assets, deferred outflows/inflows of resources, liabilities, and net position of the College as of the end of the June 30, 2016 fiscal year. This statement provides a snapshot of the financial condition of the College with unrestricted net position representing funds available to continue the operations of the institution. It presents the end-of-the-year data for current and noncurrent assets, deferred outflows/inflows of resources, current and noncurrent liabilities, and net position (assets plus deferred outflows/inflows minus liabilities). Over periods of time, increases and decreases in net position may serve as a useful gauge of the College's financial position. As the following table illustrates, the College is in a strong financial position with net position increasing over the past year due to alignment of operating costs with operating revenues.

## Statement of Net Position
## (In millions)

| | 2016 | 2015 | Increase (Decrease) 2016-2015 | 2014 | Increase (Decrease) 2015-2014 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current Assets | $ 57.7 | $ 52.5 | $ 5.2 | $ 51.9 | $ 0.6 |
| Noncurrent Assets | 257.0 | 268.5 | (11.5) | 268.5 | - |
| **Total Assets** | 314.7 | 321.0 | (6.3) | 320.4 | 0.6 |
| Deferred Outflows of Resources | 6.7 | 4.0 | 2.7 | 0.5 | 3.5 |
| **Total Assets and Deferred Outflows of Resources** | 321.4 | 325.0 | (3.6) | 320.9 | 4.1 |
| **Liabilities** | | | | | |
| Current Liabilities | 25.2 | 26.2 | (1.0) | 26.6 | (0.4) |
| Noncurrent Liabilities | 147.6 | 153.9 | (6.3) | 133.3 | 20.6 |
| **Total Liabilities** | 172.8 | 180.1 | (7.3) | 159.9 | 20.2 |
| Deferred Inflows of Resources | 2.9 | 0.7 | 2.2 | - | 0.7 |
| **Total Liabilities and Deferred Inflows of Resources** | 175.7 | 180.8 | (5.1) | 159.9 | 20.9 |
| **Net Position** | | | | | |
| Net Investment in Capital Assets | 80.7 | 77.2 | 3.5 | 73.6 | 3.6 |
| Restricted - expendable | 12.2 | 13.6 | (1.4) | 14.4 | (0.8) |
| Restricted - nonexpandable | 19.9 | 20.4 | (0.5) | 19.8 | 0.6 |
| Unrestricted | 32.9 | 33.0 | (0.1) | 53.2 | (20.2) |
| **Total Net Position** | $ 145.7 | $ 144.2 | $ 1.5 | $ 161.0 | $ (16.8) |

In 2016, current assets increased by $ 5.2 million over 2015, which was an increase of $ 0.6 over 2014. During the year, cash and cash equivalents, both operating and restricted, increased by a combined $ 5.5 million and short-term investments decreased by $ 464,500. $ 6.1 million of long-term instruments for the College were converted to cash and cash equivalents to help with cash flow during the state budget impasse. An overnight investment agreement was signed in July 2015 which allowed for greater flexibility with cash while still earning better interest rates. In 2016, the College incurred a modest increase in accounts receivable of $ 684,000 due to continuing collection efforts for older workforce development accounts that would have typically been written off, while the Foundation had a modest decrease of approximately $ 500,000 in accounts receivables due to write offs of uncollectible pledges, and an increase in the allowance for doubtful accounts. The College also saw a $ 92,000 increase in bookstore inventory due to the combining of 2 summer terms into one, increasing the need for inventory on hand. There was a $ 66,000 decrease in other assets due to bond refinancing, which includes bond costs.

The noncurrent assets decreased by $ 11.5 million in 2016 from the previous year. This decrease is partially due to the reduced number of capitalization and disposed of assets, while the depreciable expense of those assets remained comparable to prior fiscal years, resulting in a decrease of $ 3.4 million. In addition, $ 6.1 million of long-term instruments for the College were converted to cash and cash equivalents to help with cash flow during the state budget impasse, while $ 800,000 was used to offset expenses. The Foundation’s long- term investments decreased by $800,000 due to conversion to cash and cash equivalents as spendable endowments, as well as market depreciation of investments. Deferred outflows of resources increased by $ 2.7 million due to a decrease of $ 70,800 in deferred charges on bond refinancing and deferred outflows due to changes in proportions, contributions subsequent to the measurement date, and net difference between projected and actual investment earnings as related to recognition of net pension liability of $ 2.8 million.

Current liabilities for 2016 decreased by $ 1 million due to a decrease in accounts payable and deposits held in custody for others of $ 2 million, and an increase of $ 250,000 in unearned revenue representing an increase in unpaid tuition and fees toward Summer II and Fall 2016 credit and noncredit semesters. The current portion of long-term liabilities increased by $ 785,000 as a result of the refinancing of the 2009A and 2010 bonds in 2015.

The noncurrent liabilities decreased by $ 6.3 million. This decrease in was due to a reduction in long term liabilities of $ 7.8 million due to paying down of debt instruments, an increase in other post employee benefit liabilities of $ 101,000, and the recognition of an additional $ 1.4 million of proportionate share of net pension liability associated with the Public School Employees' Retirement System (PSERS) and Pennsylvania State Employee's Retirement System (SERS) defined benefit plans as a result of new accounting guidance.

The College adopted new accounting guidance, Governmental Accounting Standards Board ("GASB") Statement No. 68 *Accounting and Financial Reporting for Pensions,* as of July 1, 2014. This statement requires entities that participate in pension plans to report a liability for its proportionate share of the net pension liability as well as deferred inflows and outflows of resources related to those pension liabilities. The College's proportionate share of net pension liability of the combined PSERS and SERS defined benefit pension plans is $ 27.9 million as of June 30, 2016, and $ 26.5 million as of June 30, 2015. The College's proportionate share of net pension liability from the SERS plan is $ 19.8 million as of June 30, 2016. The PSERS retirement code mandates the Commonwealth of Pennsylvania (Commonwealth) fund 50% of the College's retirement expense directly to the plan. This arrangement meets the criteria of a special funding situation in accordance with GASB standards which mandates the College record 50% of the net pension liability of the PSERS plan. The College's total PSERS net pension liability is $ 8.1 million.

In addition, a deferred inflow, representing the difference between projected and actual investment earnings for the above net pension liability, was recorded as an increase to total liabilities of $ 2.2 million. See Notes to Financials to Financial Statements note 11 for additional information.

Net position as of June 30, 2016 increased to $ 145.7 million, from $ 144.2 million as of June 30, 2015. The largest portion of the net position, $ 80.7 million, reflects the College's net investment in capital assets which showed a $ 3.5 million increase over 2015. The College uses these capital assets to provide services to students, faculty, and staff and these assets cannot be easily liquidated for future spending. Therefore, resources needed to repay this debt must be provided from other sources. The Restricted – expendable and Restricted – nonexpendable decreased by $ 1.9 million over 2015 due to a decrease in the market value of the endowments. The unrestricted net position balance of $ 32.9 million is available to use for any lawful purpose of the College and the Foundation.

## *STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION*

The statement of revenues, expenses, and changes in net position 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. For the Foundation operating revenues consist of gifts and pledges to serve the students and the College. Non-operating revenues are those that exclude a direct exchange of goods and services. State and local (school district) appropriations are classified as non-operating revenues since these governmental agencies do not directly receive goods or services in exchange for the revenue.

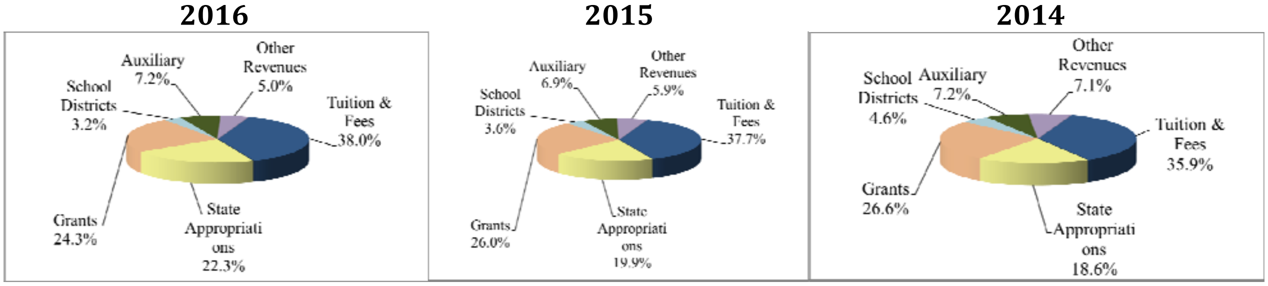
The following is a summarized version of the College's revenues, expenses, and changes in net position for years ending June 30, 2016 and 2015, as well as graphical representations of revenues and expenses by category.

**Revenues, Expenses and Changes in Net Position - Combined**
**(In millions)**

| | 2016 | 2015 | Increase (Decrease) 2016 - 2015 | 2014 | Increase (Decrease) 2015 - 2014 |
|---|---|---|---|---|---|
| Operating Revenues | $ 121.4 | $ 133.5 | $ (12.1) | $ 139.4 | $ (5.9) |
| Operating Expenses | 164.8 | 172.4 | (7.6) | 173.9 | (1.5) |
| Operating Income (Loss) | (43.4) | (38.9) | (4.5) | (34.5) | (4.4) |
| Nonoperating Revenues (Net) | 36.2 | 35.6 | 0.6 | 35.6 | - |
| Net Income (Loss) Before Capital Contributions | (7.2) | (3.3) | (3.9) | 1.1 | (4.4) |
| Capital Contributions | 8.7 | 9.4 | (0.7) | 9.2 | 0.2 |
| Increase (Decrease) in Net Position | $ 1.5 | $ 6.1 | $ (4.6) | $ 10.3 | $ (4.2) |

**Total Operating and Non-Operating Revenues**

**2016** **2015** **2014**




Operating revenues of $ 121.4 million in 2016 were $ 12.1 million less than the $ 133.5 million in 2015. In 2016, tuition and fees decreased by $ 5.1 million, driven by an overall decrease in tuition per credit hour and fees due to a decrease in student enrollment of 5.7%. Scholarship allowances and discounts decreased by $ 1.2 million resulting in a total tuition and fee decrease of $ 3.9 million. Also, the College experienced an overall decrease of $ 5.6 million in grants and contracts mainly due to the reduction of PELL Grants. Auxiliary enterprise revenue decreased by $ 172,000. A decrease in bookstore revenue of

$ 534,000 was partially offset by $ 362,000 revenue generated by the newly created food service on Harrisburg campus. Other operating revenues decreased by $ 1.4 million which includes income from institutional fees. For the Foundation, Contributions increased by $65,000 over 2015 due to an increase in contributions pledged and an increase in special event contributions. Foundation investment income increased by $250,000 due to rising interest rates and a better return on investment, while realized and unrealized losses increased by $1.3 million due to market conditions.

| Tuition Per Credit Hour Comparison | 2016 | 2015 | 2014 |
|---|---|---|---|
| Sponsored | $ 162.50 | $ 152.50 | $ 142.50 |
| Non Sponsored | $ 207.00 | $ 207.00 | $ 201.00 |
| Out of State | $ 250.00 | $ 310.50 | $ 301.50 |
| Dual Enrolled | $ 100.00 | Regular Rate | Regular Rate |
| Veteran | $ 162.50 | Regular Rate | Regular Rate |
| College in the High School | $ 50.00 | $ 50.00 | $ 30.00 |

Operating expenses decreased by $ 7.6 million in 2016. With the exception of utilities, supplies and depreciation expense, the College experienced a decrease in all expense categories in 2016 compared to 2015. Salary and benefits decreased $ 2.4 million due to College early retirement incentive and vacant positions. Professional and purchased services decreased by $ 2.1 million due to the reduction in usage of contracted services. Scholarships decreased by $ 3.3 million due to a reduction in PELL awards of $ 3.0 million and slight decreases in other scholarships. Utilities increased by $ 113,000 due to increased energy usage. Supplies and other expenses increased by $ 164,000 due to an increase in Foundation uncollectible pledges, but was offset by College savings in general and operational supplies and instructional equipment not capitalized.

Non-operating revenues (expenses) increased by $ 600,000 which includes increases of $ 1.3 million in state appropriations and gifts and savings of $ 262,500 in interest expense due to refinancing of debt. Local appropriations (school district allocations) decreased by $ 1.0 million due to a change in the sponsoring contractual agreement, and an increase of $ 83,000 in investment income due to increase in interest rates. Gains on sale of assets increased by $ 11,000. Investment income increased by $ 100,000 and was helped by a decrease in interest expense of $ 200,000.

The total capital contributions for fiscal year 2016 amounted to $ 8.7 million. This was a decrease of $ 736,000 compared to 2015, which includes a decrease of $ 290,000 in state appropriations and a decrease of $ 446,000 in contributions to permanent endowments.

Ending net position as reported in the Statement of Revenues, Expenses, and Changes in Net Position reflects an overall decrease of $ 4.6 million when compared to the net position reported as of June 30, 2015.

## *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, 2016, which increased $ 5.4 million compared to the prior year. The following is a summary of the statement of cash flows for the years ending June 30, 2016, 2015 and 2014.

| | 2016 | 2015 | Increase (Decrease) 2016-2015 | 2014 | Increase (Decrease) 2015-2014 |
|---|---|---|---|---|---|
| Cash Provided (Used) By: | | | | | |
| Operating Activities | $ (69.5) | $ (68.4) | $ (1.1) | $ (72.2) | $ 3.8 |
| Noncapital Financing Activities | 78.0 | 83.0 | (5.0) | 86.7 | (3.7) |
| Capital Financing Activities | (11.3) | (10.5) | (0.8) | (15.5) | 5.0 |
| Investing Activities | 8.2 | (5.0) | 13.2 | 2.3 | (7.3) |
| Net Increase (decrease) in Cash and Cash Equivalents | 5.4 | (0.9) | 6.3 | 1.3 | (2.2) |
| Cash and Cash Equivalents - Beginning of Year | 37.0 | 37.9 | (0.9) | 36.6 | 1.3 |
| Cash and Cash Equivalents - End of Year | $ 42.4 | $ 37.0 | $ 5.4 | $ 37.9 | $ (0.9) |

## *CAPITAL ASSET AND DEBT ADMINISTRATION*

During the year ended June 30, 2016, the College had total capital additions of approximately $ 8.1 million which included renovation of the Cooper Culinary Center (Chef's Apprentice), the beginning of renovations to the Cooper Student Center, installation of CCTV's, capital lease of additional fleet vehicles and purchase of miscellaneous equipment on the Harrisburg Campus. The Lancaster Campus incurred repairs to the storm water drains, installation of CCTV's and miscellaneous equipment purchases. The Gettysburg Campus had renovations to the Mechatronics' Lab, paving projects and replacement of lighting in the parking lot. Lebanon campus saw the repair of an elevator. The College completed several renovation projects at the York Campus including the Writing and Communications Lab, welding lab renovations and improvements to the student commons.

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

## *CAPITAL PLAN*

For 2017, the College has a variety of capital projects that have been planned or are currently being planned based upon funding availability. The Harrisburg Campus is continuing with the Cooper Student Center renovation with plans for completion in July of 2017, and renovations to the West Parking Lot. Projects on the Lancaster Campus include renovating the campus learning center and library in the main building, intersection improvements and storm water drain repairs. Multiple projects will be forthcoming on the York campus.

## *ECONOMIC FACTORS THAT WILL IMPACT THE FUTURE*

The College's financial position is closely tied to the economy and State's budget. Changes in the economy, unemployment rates in Central Pennsylvania, high school graduating yield rates, the College's challenges and opportunities to expand into new markets, and retention efforts have all affected student enrollments.

State and local funding through annual appropriations and other funding continues to be unpredictable, especially with the uncertainty of the economy. During 2013, the College amended the sponsorship agreement with the local sponsors (school districts) reducing their operating support on a graduating scale, from $ 8.0 million in fiscal year 2013-14 to $ 4.0 million in fiscal year 2016-17. In fiscal year 2015-16, local sponsors will contribute $5.0 million in operating support, a decrease of $ 3.0 million from fiscal year 2013-14. At the same time, the local sponsors agreed to increase the capital contributions from $ 1.0 million in fiscal year 2012-13 to $ 1.5 million in fiscal year 2017. Discussions for the renewal of the sponsorship agreement have begun and an agreement should be reached in the near future. However, the College continues to focus on student retention and foster 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 and methods of instruction to our students.

Overall, the College's current financial position remains strong as is evident by the 2016 financial statements. The organizational changes in fiscal year 2012 and 2013 are continuing to have a positive impact on the College's financial position. The current College structure is aligned to streamline operations, create efficiencies, leverage technology, and eliminate redundancies to advance fiscal stability and provide a high quality, low cost education where students come first.

# HARRISBURG AREA COMMUNITY COLLEGE
## Statements of Net Position
## June 30, 2016 and 2015

| | Primary Institution 2016 | Primary Institution 2015 | Component Unit Foundation 2016 | Component Unit Foundation 2015 | Total 2016 | Total 2015 |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| **Current Assets** | | | | | | |
| Cash and cash equivalents | $ 38,775,177 | $ 32,610,291 | $ 3,373,626 | $ 4,043,009 | $ 42,148,803 | $ 36,653,300 |
| Restricted cash and cash equivalents | 237,901 | 331,821 | - | - | 237,901 | 331,821 |
| Short-term investments | 3,125,393 | 3,589,946 | - | - | 3,125,393 | 3,589,946 |
| Accounts receivable, net | 8,859,688 | 8,174,658 | 367,972 | 810,821 | 9,227,660 | 8,985,479 |
| Loans receivable - current portion | 829 | 1,593 | - | - | 829 | 1,593 |
| Other assets | 941,751 | 1,007,921 | - | - | 941,751 | 1,007,921 |
| Inventories | 2,001,817 | 1,909,931 | - | - | 2,001,817 | 1,909,931 |
| Internal balances | 173,276 | 808,511 | (173,276) | (808,511) | - | - |
| Total Current Assets | 54,115,832 | 48,434,672 | 3,568,322 | 4,045,319 | 57,684,154 | 52,479,991 |
| **Noncurrent Assets** | | | | | | |
| Long-term investments | 25,368,745 | 32,334,904 | 30,866,147 | 31,671,157 | 56,234,892 | 64,006,061 |
| Accounts receivable - long term portion | - | - | 160,576 | 538,335 | 160,576 | 538,335 |
| Loans receivable - long term portion | 9,013 | 9,370 | - | - | 9,013 | 9,370 |
| Capital assets, net of accumulated depreciation | 200,546,874 | 204,004,220 | - | - | 200,546,874 | 204,004,220 |
| Total Noncurrent Assets | 225,924,632 | 236,348,494 | 31,026,723 | 32,209,492 | 256,951,355 | 268,557,986 |
| Total Assets | 280,040,464 | 284,783,166 | 34,595,045 | 36,254,811 | 314,635,509 | 321,037,977 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | | | |
| Deferred outflows related to pension liability | 5,904,286 | 3,059,286 | - | - | 5,904,286 | 3,059,286 |
| Deferred charge on bond refunding | 816,881 | 887,652 | - | - | 816,881 | 887,652 |
| Total Deferred Outflows of Resources | 6,721,167 | 3,946,938 | - | - | 6,721,167 | 3,946,938 |
| **TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | $ 286,761,631 | $ 288,730,104 | $ 34,595,045 | $ 36,254,811 | $ 321,356,676 | $ 324,984,915 |
| **LIABILITIES** | | | | | | |
| **Current Liabilities** | | | | | | |
| Accounts payable and accrued expenses | $ 11,180,875 | $ 13,383,902 | $ - | $ - | $ 11,180,875 | $ 13,383,902 |
| Deposits held in custody for others | 1,981,156 | 1,797,817 | - | - | 1,981,156 | 1,797,817 |
| Unearned revenue | 3,248,858 | 2,999,598 | - | - | 3,248,858 | 2,999,598 |
| Current portion of long-term liabilities | 8,774,306 | 7,989,658 | - | - | 8,774,306 | 7,989,658 |
| Total Current Liabilities | 25,185,195 | 26,170,975 | - | - | 25,185,195 | 26,170,975 |
| **Noncurrent Liabilities** | | | | | | |
| Long-term liabilities | 118,343,726 | 126,163,242 | - | - | 118,343,726 | 126,163,242 |
| Net pension liability | 27,883,778 | 26,500,987 | - | - | 27,883,778 | 26,500,987 |
| OPEB obligations | 1,378,084 | 1,277,196 | - | - | 1,378,084 | 1,277,196 |
| Total Noncurrent Liabilities | 147,605,588 | 153,941,425 | - | - | 147,605,588 | 153,941,425 |
| Total Liabilities | 172,790,783 | 180,112,400 | - | - | 172,790,783 | 180,112,400 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | | |
| Deferred inflows related to pension liability | 2,862,386 | 683,953 | - | - | 2,862,386 | 683,953 |
| **NET POSITION** | | | | | | |
| Net investment in capital assets | 80,743,279 | 77,194,785 | - | - | 80,743,279 | 77,194,785 |
| Restricted - expendable | - | - | 12,207,303 | 13,663,886 | 12,207,303 | 13,663,886 |
| Restricted - nonexpandable | - | - | 19,909,268 | 20,353,721 | 19,909,268 | 20,353,721 |
| Unrestricted | 30,365,183 | 30,738,966 | 2,478,474 | 2,237,204 | 32,843,657 | 32,976,170 |
| Total Net Position | 111,108,462 | 107,933,751 | 34,595,045 | 36,254,811 | 145,703,507 | 144,188,562 |
| **TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION** | $ 286,761,631 | $ 288,730,104 | $ 34,595,045 | $ 36,254,811 | $ 321,356,676 | $ 324,984,915 |

# HARRISBURG AREA COMMUNITY COLLEGE
## Statements of Revenues, Expenses and Changes in Net Position
## Years Ended June 30, 2016 and 2015

| | Primary Institution | | Component Unit Foundation | | Total | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| **REVENUES** | | | | | | |
| Operating Revenues | | | | | | |
| Student tuition and fees | $ 77,050,067 | $ 82,213,965 | $ - | $ - | $ 77,050,067 | $ 82,213,965 |
| Scholarship allowance and discounts | (17,150,343) | (18,403,759) | - | - | (17,150,343) | (18,403,759) |
| Federal grants | 30,810,189 | 34,194,765 | - | - | 30,810,189 | 34,194,765 |
| State and local grants | 7,450,317 | 9,745,052 | - | - | 7,450,317 | 9,745,052 |
| Nongovernmental grants | 60,673 | 59,575 | - | - | 60,673 | 59,575 |
| Sales and services of auxiliary enterprises | 11,427,756 | 11,599,725 | - | - | 11,427,756 | 11,599,725 |
| Other operating revenues | 11,331,436 | 12,736,040 | - | - | 11,331,436 | 12,736,040 |
| Contributions | - | - | 884,516 | 819,665 | 884,516 | 819,665 |
| Investment income, net of investment expenses | - | - | 905,027 | 658,324 | 905,027 | 658,324 |
| Realized and unrealized gains (losses) on investments | - | - | (1,308,426) | (75,146) | (1,308,426) | (75,146) |
| Total Operating Revenues | 120,980,095 | 132,145,363 | 481,117 | 1,402,843 | 121,461,212 | 133,548,206 |
| **EXPENSES** | | | | | | |
| Operating Expenses | | | | | | |
| Salaries and wages | 75,017,278 | 76,252,286 | 589,097 | 715,614 | 75,606,375 | 76,967,900 |
| Benefits and payroll taxes | 25,616,856 | 26,695,600 | 244,188 | 295,132 | 25,861,044 | 26,990,732 |
| Supplies and other expense | 23,345,186 | 23,716,935 | 882,627 | 308,088 | 24,227,813 | 24,025,023 |
| Professional and purchased services | 4,764,677 | 6,832,575 | 54,350 | 56,629 | 4,819,027 | 6,889,204 |
| Utilities | 3,420,075 | 3,307,547 | - | - | 3,420,075 | 3,307,547 |
| Depreciation and amortization | 11,530,009 | 11,448,035 | - | - | 11,530,009 | 11,448,035 |
| Scholarships | 19,258,183 | 22,601,115 | - | - | 19,258,183 | 22,601,115 |
| Contributions and grants | - | - | 122,082 | 197,685 | 122,082 | 197,685 |
| Total Operating Expenses | 162,952,264 | 170,854,093 | 1,892,344 | 1,573,148 | 164,844,608 | 172,427,241 |
| Operating (Loss) | (41,972,169) | (38,708,730) | (1,411,227) | (170,305) | (43,383,396) | (38,879,035) |
| **NON-OPERATING REVENUES (EXPENSES)** | | | | | | |
| State appropriations | 35,173,419 | 33,617,048 | - | - | 35,173,419 | 33,617,048 |
| Local appropriations | 5,000,000 | 6,000,000 | - | - | 5,000,000 | 6,000,000 |
| Gifts | 536,149 | 777,598 | - | - | 536,149 | 777,598 |
| Gain (loss) on sale of assets | 41,323 | 30,475 | - | - | 41,323 | 30,475 |
| Investment income, net of investment expenses | 277,777 | 194,964 | - | - | 277,777 | 194,964 |
| Interest expense | (4,792,010) | (5,054,350) | - | - | (4,792,010) | (5,054,350) |
| Total Non-Operating Revenues, net | 36,236,658 | 35,565,735 | - | - | 36,236,658 | 35,565,735 |
| Net (Loss) Before Capital Contributions, Additions to Permanent Endowments and Transfers | (5,735,511) | (3,142,995) | (1,411,227) | (170,305) | (7,146,738) | (3,313,300) |
| **CAPITAL CONTRIBUTIONS, ADDITIONS TO PERMANENT ENDOWMENTS AND TRANSFERS** | | | | | | |
| Capital appropriations - local sources | 1,000,000 | 1,000,000 | - | - | 1,000,000 | 1,000,000 |
| Capital appropriations - state sources | 6,827,766 | 7,054,064 | - | - | 6,827,766 | 7,054,064 |
| Capital grants and gifts | 267,787 | 331,229 | - | - | 267,787 | 331,229 |
| Contributions to permanent endowments | - | - | 566,130 | 1,012,368 | 566,130 | 1,012,368 |
| Transfers in | 1,647,940 | 2,202,578 | 833,271 | 1,010,746 | 2,481,211 | 3,213,324 |
| Transfers out | (833,271) | (1,010,746) | (1,647,940) | (2,202,578) | (2,481,211) | (3,213,324) |
| Total Capital Contributions, Additions to Permanent Endowments and Transfers | 8,910,222 | 9,577,125 | (248,539) | (179,464) | 8,661,683 | 9,397,661 |
| Change in Net Position | 3,174,711 | 6,434,130 | (1,659,766) | (349,769) | 1,514,945 | 6,084,361 |
| Net Position - Beginning of Year | 107,933,751 | 101,499,621 | 36,254,811 | 36,604,580 | 144,188,562 | 138,104,201 |
| Net Position - End of Year | $ 111,108,462 | $ 107,933,751 | $ 34,595,045 | $ 36,254,811 | $ 145,703,507 | $ 144,188,562 |

# HARRISBURG AREA COMMUNITY COLLEGE
## Statements of Cash Flows
## Years Ended June 30, 2016 and 2015

| | Primary Institution | | Component Unit Foundation | | Total | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | | |
| Payments received for tuition and fees | $ 59,977,926 | $ 62,022,930 | $ - | $ - | $ 59,977,926 | $ 62,022,930 |
| Payments received from auxiliary enterprise charges | 11,429,140 | 11,622,901 | - | - | 11,429,140 | 11,622,901 |
| Payments received from other revenues | 11,115,261 | 13,520,151 | 1,479,280 | 2,701,174 | 12,594,541 | 16,221,325 |
| Payments to and on behalf of employees | (101,126,723) | (101,819,767) | - | - | (101,126,723) | (101,819,767) |
| Payments to suppliers for goods and services | (32,186,292) | (33,521,854) | (910,969) | (347,348) | (33,097,261) | (33,869,202) |
| Payments for financial aid and scholarships | (19,259,611) | (22,592,939) | - | - | (19,259,611) | (22,592,939) |
| Net cash provided (used) by operating activities | (70,050,299) | (70,768,578) | 568,311 | 2,353,826 | (69,481,988) | (68,414,752) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | | | |
| Grants and contracts | 36,292,255 | 41,250,688 | - | - | 36,292,255 | 41,250,688 |
| State appropriations | 34,987,201 | 32,980,592 | - | - | 34,987,201 | 32,980,592 |
| Local appropriations | 5,289,904 | 6,682,593 | - | - | 5,289,904 | 6,682,593 |
| Gifts received | 1,441,793 | 2,039,257 | - | - | 1,441,793 | 2,039,257 |
| Transfer to/(from) other funds | 1,647,940 | 2,202,578 | (1,647,940) | (2,202,578) | - | - |
| Net cash provided (used) by noncapital financing activities | 79,659,093 | 85,155,708 | (1,647,940) | (2,202,578) | 78,011,153 | 82,953,130 |
| **CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES** | | | | | | |
| Capital debt financing | 103,903 | 21,711,041 | - | - | 103,903 | 21,711,041 |
| State and local appropriations | 7,827,766 | 8,054,064 | - | - | 7,827,766 | 8,054,064 |
| Capital grants and gifts received | 961,905 | 1,272,149 | - | - | 961,905 | 1,272,149 |
| Purchases of capital assets | (8,121,270) | (8,500,338) | - | - | (8,121,270) | (8,500,338) |
| Proceeds from sale of capital assets | 41,327 | 30,475 | - | - | 41,327 | 30,475 |
| Principal paid on debt and capital leases | (7,107,056) | (28,052,061) | - | - | (7,107,056) | (28,052,061) |
| Interest paid on debt and capital leases | (5,016,022) | (5,005,559) | - | - | (5,016,022) | (5,005,559) |
| Net cash provided (used) by capital financing activities | (11,309,448) | (10,490,229) | - | - | (11,309,448) | (10,490,229) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | | |
| Purchase of investments | (85,737,933) | (26,904,513) | (503,416) | - | (86,241,349) | (26,904,513) |
| Proceeds from sale/maturities of investments | 93,224,250 | 20,300,872 | - | 724,057 | 93,224,250 | 21,024,929 |
| Investment income | 285,304 | 257,431 | 913,662 | 652,854 | 1,198,966 | 910,285 |
| Net cash provided (used) by investing activities | 7,771,620 | (6,346,210) | 410,246 | 1,376,911 | 8,181,866 | (4,969,299) |
| Increase(Decrease) in cash and cash equivalents | 6,070,966 | (2,449,309) | (669,383) | 1,528,159 | 5,401,583 | (921,150) |
| Cash and cash equivalents - beginning of year | 32,942,112 | 35,391,421 | 4,043,009 | 2,514,850 | 36,985,121 | 37,906,271 |
| Cash and cash equivalents - end of year | $ 39,013,078 | $ 32,942,112 | $ 3,373,626 | $ 4,043,009 | $ 42,386,704 | $ 36,985,121 |
| **AS REPORTED ON STATEMENT OF NET POSITION** | | | | | | |
| Cash and cash equivalents | $ 38,775,177 | $ 32,610,291 | $ 3,373,626 | $ 4,043,009 | $ 42,148,803 | $ 36,653,300 |
| Restricted cash and cash equivalents | 237,901 | 331,821 | - | - | 237,901 | 331,821 |
| Total cash and cash equivalents | $ 39,013,078 | $ 32,942,112 | $ 3,373,626 | $ 4,043,009 | $ 42,386,704 | $ 36,985,121 |

# HARRISBURG AREA COMMUNITY COLLEGE
## Statements of Cash Flows (Continued)
## Years Ended June 30, 2016 and 2015

| | Primary Insitution | | Component Unit Foundation | | Total | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| **RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES** | | | | | | |
| Operating (loss) | $ (41,972,169) | $ (38,708,730) | $ (1,411,227) | $ (170,305) | $ (43,383,396) | $ (38,879,035) |
| Adjustments to reconcile net operating loss to net cash used in operating activities: | | | | | | |
| Depreciation and amortization | 11,530,009 | 11,448,035 | - | - | 11,530,009 | 11,448,035 |
| Grants classified as operating revenues | (38,321,179) | (43,999,392) | - | - | (38,321,179) | (43,999,392) |
| Investment income | - | - | (905,027) | (658,324) | (905,027) | (658,324) |
| Realized and unrealized (gains) losses on investments | - | - | 1,308,426 | 75,146 | 1,308,426 | 75,146 |
| Contributions to permanent endowments | - | - | 566,130 | 1,012,368 | 566,130 | 1,012,368 |
| Transfers to/(from) other funds | (833,271) | (1,010,746) | 833,271 | 1,010,746 | - | - |
| (Increase) Decrease in: | | | | | | |
| Accounts receivable | 281,877 | (969,497) | 811,973 | 412,306 | 1,093,850 | (557,191) |
| Inventory | (91,887) | 219,272 | - | - | (91,887) | 219,272 |
| Other assets | 70,498 | (37,814) | - | 500 | 70,498 | (37,314) |
| Increase (Decrease) in: | | | | | | |
| Unearned revenue | (399,677) | 450,497 | - | - | (399,677) | 450,497 |
| Accounts payable and accrued expenses | (1,283,232) | 386,122 | (635,235) | 671,389 | (1,918,467) | 1,057,511 |
| Compensated absences | (31,716) | (174,152) | - | - | (31,716) | (174,152) |
| Other postemployment benefits | 100,888 | 143,119 | - | - | 100,888 | 143,119 |
| Net pension liability and related items | 716,225 | 1,267,612 | - | - | 716,225 | 1,267,612 |
| Deposits | 183,335 | 217,096 | - | - | 183,335 | 217,096 |
| Net cash provided (used) by operating activities | $ (70,050,299) | $ (70,768,578) | $ 568,311 | $ 2,353,826 | $ (69,481,988) | $ (68,414,752) |
| **NONCASH INVESTING, CAPITAL AND FINANCING TRANSACTIONS** | | | | | | |
| Capital gifts of equipment and buildings | $ 8,500 | $ 78,602 | $ - | $ - | $ 8,500 | $ 78,602 |
| Transfers of salaries and benefits (in-kind contributions) | $ (833,271) | $ (1,010,746) | $ 833,271 | $ 1,010,746 | $ - | $ - |
| Unrealized gains (losses) on investments | $ (3,115) | $ 47,694 | $ (1,308,426) | $ (75,146) | $ (1,311,541) | $ (27,452) |

## 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.

### *Basis of Presentation*

The College's financial statements are presented on the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. All activities of the College are accounted for within a single proprietary (enterprise) fund and are classified as a business-type activity. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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 expenses when materials or services are received. All intercompany accounts and transactions have been eliminated.

### *Measurement Focus and Basis of Accounting*

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The College's activity is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Accordingly, all assets and all liabilities associated with operations are included on the balance sheet. Net position (i.e. total assets and deferred outflows net of total liabilities and deferred inflows) is segregated into net investment of capital assets, restricted and unrestricted elements.

The College records tuition; all academic, instructional, and other student fees; student financial aid; and auxiliary activity, as operating revenue. In addition, governmental grants in which the grantor receives equal value for the funds given to the College are recorded as operating revenue. All expense, with the exception of interest expense, loss on the sale of investments, and loss on the disposal of assets are recorded as operating expenses. Appropriations, gifts, interest income, capital grants, gain on the sale of investments, gains on the disposal of assets, and governmental grants in which the grantor does not receive equal value for the funds given to the College are reported as nonoperating revenue or other revenue.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Reporting Entity*

GASB 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" or "Foundation") is included in the College's financial statements as a component unit 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 appoint 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 the GASB, the HACC Foundation is shown as a blended 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 and the Foundation's Board of Directors is appointed by the College Board of Trustees. Substantially all of HACC Foundation's expenses for scholarships, and capital grants are reported as transfers between the entities in these financial statements. The financial statements include activity of both entities, but have separate columns for the activity of the College and the Foundation. Previously, the Foundation was presented as a discretely presented component unit under FASB standards; however, it was determined in the current year that the Foundation should be presented using GASB standards as a blended component unit. The 2015 financial statements have been restated to present the Foundation in accordance with GASB standards.

### *Net Position*

Net position is classified in the following categories:

**Net Investment in capital assets** – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt, accounts payable and retainage payable that are attributable to the acquisition, construction or improvement of these assets reduce this category.

**Restricted expendable** - This includes net position whose use is limited by donor imposed stipulations that can be removed by the passage of time or action of the HACC Foundation pursuant to those stipulations. For the College, this also includes constraints imposed by creditors, grantors, or laws or regulations.

**Restricted nonexpendable** - This includes net position whose use is limited by donor imposed stipulations that cannot be removed by the passage of time or action of the HACC Foundation.

**Unrestricted** – This category of net position is the amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position. Unrestricted net position represents 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 entities, and may be used at the discretion of the entities to meet current expenses for any purpose.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Net Position (Continued)*

**Use of restricted net position -** The entities have 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 position are available. Generally, the entities attempt to utilize restricted funds first when practicable.

### *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, money market funds, certificates of deposit with an original maturity of less than ninety days, and, in accordance with GASB pronouncements, short-term pooled investments in the PSDLAF. For purposes of the statement of net position, the entities consider all highly liquid investments with original maturities of three months or less to be cash equivalents.

### *Restricted Cash and Cash Equivalents*

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. Certificates of deposit with an original maturity of greater than ninety days are considered investments.

### *Total Return Policy - HACC Foundation*

The Foundation follows PA Act 141, "Investment of Trust Funds," and has adopted a total return policy for its permanently restricted endowment funds. Based on the PA Act 141 guidelines, the policy has been set into place where income for permanently restricted (nonexpendable) 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, 2016 and 2015. Actual investment return, net of the 4% spending policy, is added back to the restricted (nonexpendable) 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.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *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 a purchased cost, or fair value if acquired by gift, in excess of $ 2,000 with an estimated useful life in excess of one year is capitalized. Normal repair and maintenance expenses are not capitalized because they neither add to the value of the property nor materially prolong its useful life.

| Asset Type | Useful Life in Years |
|---|---|
| Buildings | 45 |
| Land improvements | 20 |
| Equipment | 5 - 20 |
| Furniture | 20 |

### *Deferred Outflows and Inflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The College has several items that qualify for reporting in this category, including the deferred charge on bond refunding, employer contributions made for the College's share of the pension plan after the actuarial measurement date of the pension plan, and amounts deferred due to changes in the pension plan's actuarial assumptions that will be amortized in future periods. A deferred charge on bond refunding results from the difference in the carrying value of refunding debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred pension contribution results from contributions made to the pension plan subsequent to the measurement date and prior to the College's year-end. The contributions will be recognized as a reduction in net pension liability in the following year.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The College's deferred inflows of resources at June 30, 2016 and 2015 consist of the net difference between projected and actual earnings on the College's proportionate share of the pension plan investments. These amounts are deferred and amortized over either a closed fixed-year period or the average remaining service life of all employees, depending on what gave rise to the deferred inflow.

## 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 position. Bond premiums, discounts, and prepaid bond insurance 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. Prepaid bond insurance costs are reported as other assets 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 is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. HACC Foundation files Form 990, "Return of Organization Exempt from Income Tax". The Forms 990 are generally subject to examination for a period of three years after the returns are filed

### *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 position.

### *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.

## 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, such as federal, state and local appropriations and investment income.

**Capital Contributions, Additions to Permanent Endowments and Transfers -** These include activities that have the characteristics of non-exchange transactions, such as contributions for capital purposes, permanently restricted contributions (nonexpendable), and transfers between the College and Foundation.

### *Accounts Receivable*

College accounts receivable relate to transactions involving student tuition and fee billings for semesters in which services are provided, governmental appropriations, grants and contracts, financial aid, and other miscellaneous transactions. Foundation accounts receivable represent contributions receivable, net of an allowance for uncollectibles.

### *Allowance for Doubtful Accounts*

It is the College's policy to provide an estimate 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.

The Foundation provides an allowance based on prior years' experience and management's analysis of specific promises made.

### *Scholarship Allowances*

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statement of revenues, expenses and changes in net position. Scholarship allowances are 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, the Federal Direct Loan Program (FDLP) 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.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *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. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 establishes standards for the measurement, recognition, and display of the net pension liability, deferred outflows and inflows of resources, pension expense, and note disclosures associated with their proportionate share of the pension plan. See Note 11 for additional information.

### *Reclassifications*

Certain reclassifications were made to the previously reported 2015 in order for them to be comparative to 2016.

## NOTE 2 DEPOSITS AND INVESTMENTS

The College authorizes the following investment instruments which are allowable under PA Law, including Act 72 of 1971:

- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government and are considered to be the most secure instruments available;
- U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value;
- Investment-grade obligations of state, provincial and local governments and public authorities;
- Repurchase agreements whose underlying purchased securities consist of the U.S. Treasury obligations or U.S. government agency and instrumentality obligations as outlined above;
- Certificates of deposit and other evidences of deposit at financial institutions;
- Bankers' acceptances;
- Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency.
- Shares of a portfolio of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933; provided that all of the following are met: (a) the only investments of that portfolio are in the authorized investments listed above, (b) the portfolio is managed so as to maintain its shares at a constant net asset value in accordance with 17 CFR 270 2a-7 (relating to money market funds); and (c) the portfolio is rated in the highest category by a nationally recognized rating agency.

## NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

- Shares of a portfolio of a local government investment pool, either state-administered or developed through State Law, also known as the Intergovernmental Cooperation Act, provided that the following are met: (a) the only investments of that portfolio are in the authorized investments listed above, (b) the portfolio is managed so as to maintain its shares at a constant net asset value in accordance with 17 CFR 270 2a-7 (relating to money market funds); and (c) the portfolio is rated in the highest category by a nationally recognized rating agency.

The Foundation is not restricted by any outside parties regarding the types of investments they may invest in. However, the Foundation does have an investment policy, which allows for investments in stock (domestic and foreign), fixed income securities, commercial real estate securities, private equity securities, hedge funds, commodities, and cash.

### *Custodial Credit Risk – Deposits and Investments*

Custodial credit risk is the risk that in the event of a bank failure, the College's or the Foundation's deposits may not be returned to it. The College and the Foundation have separate deposits; and therefore, have separate credit risk. Neither the College nor the Foundation has a written policy for custodial credit risk. As of June 30, 2016, $ 12,495,676 of the College's bank balance of $ 39,659,224 was exposed to custodial credit risk. As of June 30, 2016, $ 2,126,045 of the Foundation's bank balance of $ 3,376,045 was exposed to custodial credit risk. In addition, the Foundation has investments of $ 29,688,420 which was exposed to custodial credit risk because the investments are held on behalf of the Foundation by an investment manager, not in the name of the Foundation. Details of the amounts exposed are as follows:

| | College | Foundation | Total |
|---|---|---|---|
| Uninsured and uncollateralized | $ - | $ 31,814,465 | $ 31,814,465 |
| Collateralized with securities held by the pledging financial institution | - | - | - |
| Uninsured and collateral held by the pledging bank's trust department but not in the College's name | 12,495,676 | - | 12,495,676 |
| | $ 12,495,676 | $ 31,814,465 | $ 44,310,141 |

### *Credit Risk - Investments*

Included on the statement of net position of the College are pooled investments in the Pennsylvania School District Liquid Asset Fund (PSDLAF) of $ 510,906 (classified as cash equivalents) at June 30, 2016. These funds are basically mutual funds that consist of short term money market instruments and seek to maintain a constant net asset value of $ 1 per share. Portfolio securities are valued at amortized cost, which approximates market value. At June 30, 2016, the College's investment in PSDLAF was rated AAAm by Standard and Poor's. The negotiable CD's detailed below are unrated investments.

The operation of PSDLAF is governed by an eleven member Board of Trustees, nine of whom are elected and two of whom serve ex officio. The Trustees have full, exclusive and absolute control and authority over the business of the Fund and its assets, subject to the rights of the settlors as provided in the Declaration of Trust. PSDLAF is not registered with the Securities and Exchange Commission (SEC); however, PSDLAF follows investment procedures similar to those followed by SEC registered money market funds.

## NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

As of June 30, 2016, the Foundation's investments were as follows:

| Investment Type | Fair Value | S+P Credit Quality Rating |
|---|---|---|
| Stocks, options, and ETF's | $ 17,181,743 | N/A |
| Fixed income securities | 7,085,087 | B - AA+ |
| Mutual funds | 5,421,590 | N/A |
| Private hedge fund | 1,177,727 | N/A |
| | $ 30,866,147 | |

The Foundation's investment policy limits fixed income securities to investment grade bonds.

### *Concentrations of Credit Risk - Investments*

The Foundation's investment policy states that no more than 5% of an investment manager's total equity portfolio value at market may be invested in the equity of one corporation and fixed income securities of any one issuer are limited to 5% of the total bond portfolio.

### *Interest Rate Risk - Investments*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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, 2016, the College had the following investments and maturities:

| | | Investment Maturities (in Years) | | |
|---|---|---|---|---|
| | Fair Value | Less than 1 | 1-5 | 6-10 |
| Negotiable CD's | $ 28,494,138 | $ 14,605,747 | $ 13,888,391 | $ - |
| PSDLAF-Max | 510,906 | 510,906 | - | - |

As of June 30, 2016, the Foundation had the following investments and maturities:

| | | Investment Maturities (in Years) | | |
|---|---|---|---|---|
| | Fair Value | Less than 1 | 1-5 | 6-10 |
| Fixed income securities | $ 7,085,087 | $ - | $ 5,034,105 | $ 2,050,982 |

The College's and the Foundation's investment policies do not place limits on investment maturities.

## NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

### *Foreign Securities and Currencies Risk – Investments*

Foreign securities prices may decline or fluctuate because of economic or political actions of foreign governments or the possibility that foreign currency will fluctuate in value against the U.S. dollar. Included in the fixed income securities shown above for the Foundation are International Mutual Funds with a fair value of $ 4,922,066 which may be subject to foreign securities and currencies risk.

**Investments – Fair Value Measurements**

Generally accepted accounting principles define fair value, describe a framework for measuring fair value, and require disclosure about fair value measurements. Recurring fair value measurements are those that GASB Statements require or permit in the statement of net position at the end of each reporting period. The established framework includes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy and those investments included in each are as follows:

***Level 1*** – Represented by quoted prices available in an active market. Level 1 securities include highly liquid government bonds, treasury securities, mortgage products and exchange traded equities and mutual funds.

***Level 2*** – Represented by assets and liabilities similar to Level 1 where quoted prices are not available, but are observable, either directly or indirectly through corroboration with observable market data, such as quoted prices for similar securities and quoted prices in inactive markets and estimated using pricing models or discounted cash flows. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states, and political subdivisions and certain corporate, asset backed securities, swap agreements, and life insurance contracts.

***Level 3*** – Represented by financial instruments where there is limited activity or unobservable market prices and pricing models significant to determining the fair value measurement include the reporting entity's own assumptions about the market risk. Level 3 securities would include hedge funds, private equity securities, and those with internally developed values.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

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

## NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

### *Negotiable Certificates of Deposit*

The fair value of negotiable certificates of deposit are estimated using a discounted cash flow calculation that applies to interest rates currently being offered for deposits of similar remaining maturities to a schedule of aggregated expected maturities of such deposits.

### *Equity Securities and Mutual Funds*

Equity securities and mutual funds listed on a national market or exchange are valued at the last sales price, or if there is no sale and the market is still considered active, at the mean of the last bid and ask prices on such exchange. The Foundation's interests in mutual funds are categorized by type as equity, fixed income, or alternative investments. Such securities are classified within Level 1 of the valuation hierarchy.

### *Government Obligations and Corporate Bonds*

Government obligations consisting of U.S. Treasury bonds and notes, agency securities, mortgage backed securities and corporate debt obligations consisting of bonds are generally valued at the most recent price of the equivalent quotes yield for such securities, or those comparable maturity, quality, and type. Such investments are generally classified within Level 2 of the valuation hierarchy.

### *Hedge Fund Investment*

The Foundation's net asset value investment is a private hedge fund. The fair value of the hedge fund is based on returns and activity during the year received from the investment manager, and measured at the net asset value. The pricing of this investment is based on a variety of methods which are proprietary to the investment funds and not readily available for disclosure. These methods consist primarily of obtaining values of underlying securities, through active and inactive markets, owned by partnerships that the hedge fund has partial ownership in. The hedge fund issues separate audited financial statements and has certain equity restrictions. The redemption frequency is quarterly with 90 days plus 15 business days' notice.

The primary objective of the hedge fund investment is in an intermediate fund or through investments made by the intermediate fund, to engage in business of trading equities, fixed income products, options, futures and other financial instruments.

## NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

The following table sets forth by level within the fair value hierarchy, the financial assets that were accounted for at fair value on a recurring basis as of June 30, 2016 and 2015:

| | 2016 | | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **College:** | | | | |
| Negotiable certificates of deposit | $ 28,494,138 | $ - | $ 28,494,138 | $ - |
| **Foundation:** | | | | |
| Mutual funds by type: | | | | |
| Fixed income | 2,351,056 | 2,351,056 | - | - |
| Equity | 887,147 | 887,147 | - | - |
| Alternative investments | 2,183,386 | 2,183,386 | - | - |
| Total mutual funds | 5,421,589 | 5,421,589 | - | - |
| Equities by industry: | | | | |
| Consumer discretionary | 663,522 | 663,522 | - | - |
| Consumer staples | 172,579 | 172,579 | - | - |
| Energy | 59,263 | 59,263 | - | - |
| Financials | 1,073,584 | 1,073,584 | - | - |
| Health care | 1,071,468 | 1,071,468 | - | - |
| Industrials | 356,696 | 356,696 | - | - |
| Information technology | 1,253,078 | 1,253,078 | - | - |
| Materials | 80,455 | 80,455 | - | - |
| Telecom services | 763,545 | 763,545 | - | - |
| Other - Foreign stocks | 4,209,348 | 4,209,348 | - | - |
| Exchange traded funds | 5,823,610 | 5,823,610 | - | - |
| Total equities | 15,527,148 | 15,527,148 | - | - |
| US Government obligations | 2,375,040 | - | 2,375,040 | - |
| Fixed income exchange traded funds | 1,654,596 | 1,654,596 | - | |
| Foreign bonds | 712,717 | - | 712,717 | - |
| Corporate bonds | 3,997,330 | - | 3,997,330 | - |
| Total investments by fair value category | $ 58,182,558 | $ 22,603,333 | $ 35,579,225 | $ - |
| **Investments (Foundation) measured at the net asset value (NAV)** | | | | |
| Private hedge fund | 1,177,727 | | | |
| Total investments measured at fair value | $ 59,360,285 | | | |

## NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

| | 2015 | | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **College:** | | | | |
| Negotiable certificates of deposit | $ 35,924,850 | $ - | $ 35,924,850 | $ - |
| **Foundation:** | | | | |
| Mutual funds by type: | | | | |
| Fixed Income | 4,083,407 | 4,083,407 | - | - |
| Equity | 727,450 | 727,450 | - | - |
| Alternative investments | 1,336,634 | 1,336,634 | - | - |
| Total mutual funds | 6,147,491 | 6,147,491 | - | - |
| Equities by industry: | | | | |
| S&P 500 index | 3,592,083 | 3,592,083 | - | - |
| Vanguard real estate index | 3,102,485 | 3,102,485 | - | - |
| Basic materials | 318,833 | 318,833 | - | - |
| Capital goods | 165,099 | 165,099 | - | - |
| Consumer cyclical | 440,794 | 440,794 | - | - |
| Consumer non-cyclical | 634,551 | 634,551 | - | - |
| Energy | 483,308 | 483,308 | - | - |
| Financial | 1,447,753 | 1,447,753 | - | - |
| Health care | 223,801 | 223,801 | - | - |
| Other - Foreign stocks | 4,508,046 | 4,508,046 | - | - |
| Services | 1,242,644 | 1,242,644 | - | - |
| Technology | 807,678 | 807,678 | - | - |
| Transportation | 255,963 | 255,963 | - | - |
| Total equities | 17,223,038 | 17,223,038 | - | - |
| US Government obligations | 2,217,350 | - | 2,217,350 | - |
| Corporate bonds | 4,957,860 | - | 4,957,860 | - |
| Total investments by fair value category | $ 66,470,589 | $ 23,370,529 | $ 43,100,060 | $ - |
| **Investments (Foundation) measured at the net asset value (NAV)** | | | | |
| Private hedge fund | 1,125,418 | | | |
| Total investments measured at fair value | $ 67,596,007 | | | |

## NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30:

| | College | | HACC Foundation | | Total | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Student Tuition and fees | $ 7,856,181 | $ 7,466,134 | $ - | $ - | $ 7,856,181 | $ 7,466,134 |
| Allowance for doubtful accounts | (1,500,000) | (1,500,000) | - | - | (1,500,000) | (1,500,000) |
| Grants and contracts receivable | 1,834,116 | 1,711,656 | - | - | 1,834,116 | 1,711,656 |
| State appropriations receivable | 327,026 | 117,372 | - | - | 327,026 | 117,372 |
| Bookstore receivables | 1,541 | 3,680 | - | - | 1,541 | 3,680 |
| Other receivables | 340,824 | 375,816 | 56,955 | 65,590 | 397,779 | 441,406 |
| Contributions receivable (net) | - | - | 765,177 | 1,548,829 | 765,177 | 1,548,829 |
| Allowance for doubtful accounts | - | - | (293,584) | (265,263) | (293,584) | (265,263) |
| Total | $ 8,859,688 | $ 8,174,658 | $ 528,548 | $ 1,349,156 | $ 9,388,236 | $ 9,523,814 |

Bookstore receivables are net of $ 302,959 and $ 490,674 in vendor credit memos at June 30, 2016 and 2015, respectively.

Contribution 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 1.01% at June 30, 2016 and 1.7% at June 30, 2015. In addition to the contributions receivable noted above, the Foundation also has pledges outstanding for permanently restricted endowments that are not reflected in these financial statements. In accordance with GASB standards, contributions are considered voluntary nonexchange transactions which are not recorded as receivable and revenue until all eligibility requirements are met. In the case of contributions where the principal amount must be maintained in perpetuity, the time eligibility requirement related to permanently holding the assets cannot be met until the assets are received. Therefore, receivables are not recorded for these transactions and revenues are not recorded until assets are received. The amount of permanently restricted pledges, net of allowance, that are being maintained and tracked internally are $ 334,203 as of June 30, 2016 and $ 304,976 as of June 30, 2015.

## NOTE 4 ENDOWMENTS

The Foundation's endowments consist of individual funds established to provide scholarships and benefits for students of Harrisburg Area Community College. The endowments include both donor-restricted endowment funds and funds designated by the Foundation to function as an endowment. Net position associated with endowment funds, including funds designated by the Foundation to function as endowments, are classified and reported as unrestricted, restricted expendable, or restricted nonexpendable net position 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.

## NOTE 4 ENDOWMENTS (CONTINUED)

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, fixed income securities and mutual funds. The investment policy sets investment ranges at 21% to 99% equities, 19% to 60% fixed income securities, 0% - 9% commercial real estate and private equities, 0% - 14% hedge funds, 0% - 7% commodities, and 0% - 5% cash.

### *Total Return Policy*

Based on the Total Return Policy described in Note 1, $ 797,198 and $ 711,829 was designated as spendable income within the restricted nonexpendable funds during the years ended June 30, 2016 and 2015, respectively. The remaining amount of accumulated spendable income which is included in restricted expendable net position is $ 1,089,801 and $ 1,159,747 at June 30, 2016 and 2015, respectively.

## NOTE 5 CAPITAL ASSETS

The following is a summary of capital asset transactions of the College for the years ended June 30, 2016 and 2015:

**2016**

| | Beginning Balance | Additions | Retirements | Ending Balance |
|---|---|---|---|---|
| **Cost:** | | | | |
| Land (not being depreciated) | $ 11,368,181 | $ - | $ - | $ 11,368,181 |
| Building | 156,153,430 | - | - | 156,153,430 |
| Improvements - land | 8,549,561 | 764,535 | - | 9,314,096 |
| Improvements - building | 72,253,245 | 2,970,483 | - | 75,223,728 |
| Improvements - leasehold | 17,427,316 | - | - | 17,427,316 |
| Instructional equipment | 36,712,159 | 924,282 | (76,243) | 37,560,198 |
| Non-instructional equipment | 26,642,920 | 1,180,398 | (161,105) | 27,662,213 |
| Construction in progress (not being depreciated) | 1,202,500 | 5,337,653 | (3,119,834) | 3,420,319 |
| Total cost | 330,309,312 | 11,177,351 | (3,357,182) | 338,129,481 |
| **Less accumulated depreciation:** | | | | |
| Building | (42,871,647) | (3,677,019) | - | (46,548,666) |
| Improvements - land | (1,844,588) | (417,606) | 6,037 | (2,256,157) |
| Improvements - building | (24,867,622) | (3,548,475) | - | (28,416,097) |
| Improvements - leasehold | (7,234,251) | (848,769) | - | (8,083,020) |
| Instructional equipment | (24,470,342) | (1,211,909) | 53,024 | (25,629,227) |
| Non-instructional equipment | (25,016,642) | (1,792,891) | 160,093 | (26,649,440) |
| Total accumulated depreciation | (126,305,092) | (11,496,669) | 219,154 | (137,582,607) |
| **Capital assets, net** | $ 204,004,220 | $ (319,318) | $ (3,138,028) | $ 200,546,874 |

## NOTE 5 CAPITAL ASSETS (CONTINUED)

| 2015 | Beginning Balance | Additions | Retirements | Ending Balance |
|---|---|---|---|---|
| **Cost:** | | | | |
| Land (not being depreciated) | $ 10,968,195 | $ 399,986 | $ - | $ 11,368,181 |
| Building | 156,077,791 | 75,639 | - | 156,153,430 |
| Improvements - land | 6,863,687 | 1,695,278 | (9,404) | 8,549,561 |
| Improvements - building | 67,269,040 | 4,984,205 | - | 72,253,245 |
| Improvements - leasehold | 17,427,316 | - | - | 17,427,316 |
| Instructional equipment | 36,089,805 | 667,357 | (45,003) | 36,712,159 |
| Non-instructional equipment | 25,721,180 | 976,235 | (54,495) | 26,642,920 |
| Construction in progress (not being depreciated) | 1,440,953 | 3,549,405 | (3,787,858) | 1,202,500 |
| Total cost | 321,857,967 | 12,348,105 | (3,896,760) | 330,309,312 |
| **Less accumulated depreciation:** | | | | |
| Building | (38,961,275) | (3,910,372) | - | (42,871,647) |
| Improvements - land | (1,503,456) | (341,132) | - | (1,844,588) |
| Improvements - building | (21,843,018) | (3,024,604) | - | (24,867,622) |
| Improvements - leasehold | (6,409,494) | (824,757) | - | (7,234,251) |
| Instructional equipment | (23,163,376) | (1,347,819) | 40,853 | (24,470,342) |
| Non-instructional equipment | (23,113,583) | (1,957,550) | 54,491 | (25,016,642) |
| Total accumulated depreciation | (114,994,202) | (11,406,234) | 95,344 | (126,305,092) |
| **Capital assets, net** | $ 206,863,765 | $ 941,871 | $ (3,801,416) | $ 204,004,220 |

## NOTE 6 OTHER ASSETS

Other assets of the College at June 30 consist of:

| | 2016 | 2015 |
|---|---|---|
| Prepaid expenses | $ 475,478 | $ 508,307 |
| Prepaid bond insurance | 618,852 | 618,852 |
| Accumulated amortization - prepaid bond insurance | (152,579) | (119,238) |
| | $ 941,751 | $ 1,007,921 |

## NOTE 7 LONG-TERM LIABILITIES

Long-term liabilities had the following activity during the year ended June 30, 2016 and 2015:

**2016**

| | Beginning Balance | Additions | Retirements | Ending Balance | Current Portion | Long-term Portion |
|---|---|---|---|---|---|---|
| **Leases and bonds/notes payable:** | | | | | | |
| Capital lease obligations | $ 173,602 | $ 103,904 | $ (52,057) | $ 225,449 | $ 63,389 | $ 162,060 |
| Bonds and notes payable: | | | | | | |
| Series of 2008 | 18,885,000 | - | (1,425,000) | 17,460,000 | 1,490,000 | 15,970,000 |
| Series of 2011 | 44,700,000 | - | (1,805,000) | 42,895,000 | 1,890,000 | 41,005,000 |
| Series of 2012 | 13,740,000 | - | (580,000) | 13,160,000 | 595,000 | 12,565,000 |
| Series of 2013 | 6,260,000 | - | (990,000) | 5,270,000 | 1,005,000 | 4,265,000 |
| Series of 2014 | 21,890,000 | - | (1,600,000) | 20,290,000 | 1,645,000 | 18,645,000 |
| Series of 2015 | 5,720,000 | - | (655,000) | 5,065,000 | 935,000 | 4,130,000 |
| Series of 2015A | 14,245,000 | - | - | 14,245,000 | 170,000 | 14,075,000 |
| Bond premium | 2,714,007 | - | (189,114) | 2,524,893 | 189,114 | 2,335,779 |
| Bond discount | (298,701) | - | 21,808 | (276,893) | (21,808) | (255,085) |
| Total leases and bonds/notes payable | 128,028,908 | 103,904 | (7,274,363) | 120,858,449 | 7,960,695 | 112,897,754 |
| **Other liabilities:** | | | | | | |
| Compensated absences: | | | | | | |
| Vacation leave | 3,014,495 | 465,279 | (382,925) | 3,096,849 | 403,749 | 2,693,100 |
| Sick leave | 3,109,497 | 477,531 | (424,294) | 3,162,734 | 409,862 | 2,752,872 |
| Total other liabilities | 6,123,992 | 942,810 | (807,219) | 6,259,583 | 813,611 | 5,445,972 |
| **Total long-term liabilities** | $ 134,152,900 | $ 1,046,714 | $ (8,081,582) | $ 127,118,032 | $ 8,774,306 | $ 118,343,726 |

**2015**

| | Beginning Balance | Additions | Retirements | Ending Balance | Current Portion | Long-term Portion |
|---|---|---|---|---|---|---|
| **Leases and bonds/notes payable:** | | | | | | |
| Capital lease obligations | $ - | $ 185,663 | $ (12,061) | $ 173,602 | $ 37,088 | $ 136,514 |
| Bonds and notes payable: | | | | | | |
| Series of 2008 | 20,250,000 | - | (1,365,000) | 18,885,000 | 1,425,000 | 17,460,000 |
| Series of 2009A | 7,510,000 | - | (7,510,000) | - | - | - |
| Series of 2010 | 15,265,000 | - | (15,265,000) | - | - | - |
| Series of 2011 | 46,445,000 | - | (1,745,000) | 44,700,000 | 1,805,000 | 42,895,000 |
| Series of 2012 | 14,305,000 | - | (565,000) | 13,740,000 | 580,000 | 13,160,000 |
| Series of 2013 | 7,230,000 | - | (970,000) | 6,260,000 | 990,000 | 5,270,000 |
| Series of 2014 | 22,510,000 | - | (620,000) | 21,890,000 | 1,600,000 | 20,290,000 |
| Series of 2015 | - | 5,720,000 | - | 5,720,000 | 655,000 | 5,065,000 |
| Series of 2015A | - | 14,245,000 | - | 14,245,000 | - | 14,245,000 |
| Bond premium | 1,312,554 | 1,526,619 | (125,166) | 2,714,007 | 189,114 | 2,524,893 |
| Bond discount | (613,097) | - | 314,396 | (298,701) | (21,808) | (276,893) |
| Total leases and bonds/notes payable | 134,214,457 | 21,677,282 | (27,862,831) | 128,028,908 | 7,259,394 | 120,769,514 |
| **Other liabilities:** | | | | | | |
| Compensated absences: | | | | | | |
| Vacation leave | 3,104,303 | 396,438 | (486,246) | 3,014,495 | 399,075 | 2,615,420 |
| Sick leave | 3,193,838 | 529,848 | (614,189) | 3,109,497 | 331,189 | 2,778,308 |
| Total other liabilities | 6,298,141 | 926,286 | (1,100,435) | 6,123,992 | 730,264 | 5,393,728 |
| **Total long-term liabilities** | $ 140,512,598 | $ 22,603,568 | $ (28,963,266) | $ 134,152,900 | $ 7,989,658 | $ 126,163,242 |

## NOTE 7 LONG-TERM LIABILITIES (CONTINUED)

### *Bonds Payable*

Revenue bonds payable to the State Public School Building Authority (SPSBA) at June 30, 2016 and 2015 consist of the following:

| | 2016 | 2015 |
|---|---|---|
| 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. | $ 17,460,000 | 18,885,000 |
| 2011, issued $51,010,000 in December 2011; at a fixed rate of 2.00%-5.00%; interest and princpal payable semi-annually through October 2031. | 42,895,000 | 44,700,000 |
| 2012, issued $14,860,000 in October 2012; at a fixed rate of 0.90%-3.75%; interest and principal payable semi-annually through October 2032. | 13,160,000 | 13,740,000 |
| 2013, issued $8,185,000 in April 2013; at a fixed rate of 1.00%-2.50%; interest and principal payable semi-annually through October 2021. | 5,270,000 | 6,260,000 |
| 2014, issued $22,510,000 in June 2014; at a fixed rate of 0.30%-3.50%; interest and principal payable semi-annually through October 2027. | 20,290,000 | 21,890,000 |
| 2015, issued $5,720,000 in February 2015; at a fixed rate of 0.30%-2.46%; interest and principal payable semi-annually through October 2024. | 5,065,000 | 5,720,000 |
| 2015A, issued $14,245,000 in February 2015; at a fixed rate of 0.50%-3.11%; interest and principal payable semi-annually through October 2030. | 14,245,000 | 14,245,000 |
| Total bonds payable | $ 118,385,000 | $ 125,440,000 |

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.

### *Line of Credit*

In addition to the above bonds payable, the College also has a line of credit, which was authorized on December 16, 2016, available in the amount of $ 30,000,000, with a variable interest rate of LIBOR plus 0.85%. There were no draws on the line of credit during the fiscal year and the ending balance as of June 30, 2016 is $ 0.

### *Subsequent Event*

On July 19, 2016, the College issued $ 31,620,000 of college revenue bonds, Series of 2016 and 2016A. The proceeds were used to finance the renovations of the Cooper Student Center, pave the Harrisburg Campus West parking lot, make HVAC and other improvements to facilities at the York Campus, advance refund a portion of the College's revenue bonds Series of 2008 and pay the related costs of issuing the bonds.

## NOTE 7 LONG-TERM LIABILITIES (CONTINUED)

### *Future Maturities*

Under an agreement with the Commonwealth of Pennsylvania, a portion 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, including the issuance of college revenue bonds, Series of 2016 and 2016A, are as follows:

| Year ending | State Share | | College Share | | Total | Total | |
|---|---|---|---|---|---|---|---|
| June 30 | Principal | Interest | Principal | Interest | Principal | Interest | Total |
| 2017 | $ 2,943,500 | $ 2,656,808 | $ 4,236,500 | $ 2,168,554 | $ 7,180,000 | $ 4,825,362 | $ 12,005,362 |
| 2018 | 3,503,500 | 1,839,374 | 5,306,500 | 3,065,246 | 8,810,000 | 4,904,620 | 13,714,620 |
| 2019 | 3,636,000 | 1,705,025 | 5,514,000 | 2,863,570 | 9,150,000 | 4,568,595 | 13,718,595 |
| 2020 | 3,779,000 | 1,565,003 | 5,741,000 | 2,640,192 | 9,520,000 | 4,205,195 | 13,725,195 |
| 2021 | 3,557,500 | 1,410,439 | 5,617,500 | 2,390,806 | 9,175,000 | 3,801,245 | 12,976,245 |
| 2022-2026 | 15,847,500 | 5,078,232 | 27,072,500 | 8,484,621 | 42,920,000 | 13,562,853 | 56,482,853 |
| 2027-2031 | 13,610,000 | 2,032,297 | 24,295,000 | 3,726,685 | 37,905,000 | 5,758,982 | 43,663,982 |
| 2032-2036 | 2,835,000 | 83,562 | 8,430,000 | 596,862 | 11,265,000 | 680,424 | 11,945,424 |
| Total | $ 49,712,000 | $ 16,370,740 | $ 86,213,000 | $ 25,936,536 | $ 135,925,000 | $ 42,307,275 | $ 178,232,275 |

## NOTE 8 LEASES

### *Capital Leases*

The College has entered into capital leases for certain vehicles. At June 30, 2016 and 2015, the leased assets are as follows:

| | 2016 | 2015 |
|---|---|---|
| Capitalized equipment | $ 278,085 | $ 185,663 |
| Accumulated amortization | (49,797) | (10,247) |
| Net book value | $ 228,288 | $ 175,416 |

The amortization expense for the years ended June 30, 2016 and 2015 was $ 39,551 and $ 10,247 and is included with depreciation expense for the respective years.

The future minimum lease payments under capital leases as of June 30, 2016 are as follows:

| | |
|---|---|
| 2017 | $ 66,879 |
| 2018 | 66,879 |
| 2019 | 66,879 |
| 2020 | 52,937 |
| | 253,574 |
| Less interest | (28,125) |
| | $ 225,449 |

## NOTE 8 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:

| | | |
|---|---|---|
| 2017 | $ | 3,425,382 |
| 2018 | | 3,276,833 |
| 2019 | | 2,994,139 |
| 2020 | | 2,172,299 |
| 2021 | | 2,123,750 |
| 2022 | | 2,155,000 |
| Total minimum lease payments | $ | 16,147,403 |

The total rent under operating leases for the years ended June 30, 2016 and 2015 was $ 3,660,325 and $ 3,682,918, 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 outstanding amounts due to the Commonwealth are $ 49,041 and $ 25,604 as of June 30, 2016 and 2015, respectively.

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.

## NOTE 10 RISK MANAGEMENT (CONTINUED)

The College is self-insured for dental coverage and a prescription drug plan. The liability for estimated claims at June 30, 2016 and 2015 represents three months of claims paid. Changes in the College's claims liability amount for the years ended June 30 were:

| | 2016 | 2015 |
|---|---|---|
| Beginning balance | $ 138,516 | $ 139,298 |
| Claims made/Changes in estimates | 516,609 | 553,282 |
| Claims paid | (524,100) | (554,064) |
| Ending balance | $ 131,025 | $ 138,516 |

## NOTE 11 PENSION BENEFITS

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.

### *Summary of Significant Accounting Policies*

#### Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and Pennsylvania State Employees' Retirement System (SERS) and additions to/deductions from PSERS's and SERS's fiduciary net position have been determined on the same basis as they are reported by PSERS and SERS. For this purpose, benefit payments (including refund of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### *General Information about the Pension Plan*

#### Plan Descriptions

Public School Employees' Retirement System (PSERS) is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

## NOTE 11 PENSION BENEFITS (CONTINUED)

### *General Information about the Pension Plan (Continued)*

#### Plan Descriptions (Continued)

Pennsylvania State Employees' Retirement System (SERS) is the administrator of a cost-sharing multiple-employer defined benefit pension plan established by the Commonwealth of Pennsylvania to provide pension benefits for employees of state government and certain independent agencies. Members and employees of employees in the field of education are not required, but are given the option to participate. SERS issues a publicly available financial report that can be obtained at www.SERS.pa.gov.

#### Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

SERS provides retirement, death, and disability benefits. Article II of the Commonwealth's constitution assigns the authority to establish and amend the benefit provision of the plan to the General Assembly. According to the State Employees' Retirement Code (SERC), all obligations of SERS will be assumed by the Commonwealth should SERS terminate.

## NOTE 11 PENSION BENEFITS (CONTINUED)

### *General Information about the Pension Plan (Continued)*

**Benefits Provided (Continued)**

Prior to Act 2010-120, employees who retire at age 60 with three years of service, or with 35 years of service if under age 60, are entitled to a normal annual retirement benefit. Members of the General Assembly and certain classified in hazardous duty positions can retire with full benefits at age 50, with at least three years of service. Act 2010-120 preserved all benefits in place for members, but mandated a number of benefit reductions for new members effective January 1, 2011. The benefit reduction included a new class of membership that accrues benefits at 2% of their final average salary instead of the previous 2.5%. The new vesting period changed from five to 10 years of credit service, and the option to withdraw lump-sum accumulated deductions was eliminated. The new normal retirement age is 65 for most employees, and age 55 for members of the General Assembly and certain classified in hazardous duty positions.

Most members of SERS, and all state employees hired after June 30, 2001 and prior to January 1, 2011 (except state police officers and certain members of the judiciary and legislators), are Class AA members. Each class of benefits is based on a multiple of the base accrual rate of 2%, which is called the multiplier. The multiplier for Class AA is 1.25, which translate into an annual benefit of 2.5% of the member's highest three year average salary times years of service and became effective for members July 1, 2001. The general annual benefit for Class A members is 2% of the member's highest three-year average salary times years of service.

Act 2010-120 created a new A-3 class of service and an optional A-4 class for most employees that entered SERS membership for the first time on or after January 1, 2011 and December 1, 2010 for legislators newly elected in November 2010. Employees who enter SERS membership after the effective date of Act 2010-120 enter as members of the A-3 class with a 45-day window to elect membership in the optional A-4 class. The general annual benefit for Class A-3 members is 2% of the member's highest three-year average salary times years of service while the Class A-4 benefit accrual rate is 2.5%.

**Contributions**

*Public School Employees' Retirement System (PSERS)*

Member Contributions:

Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.

## NOTE 11 PENSION BENEFITS (CONTINUED)

### Contributions (Continued)

Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions:

The Colleges' contractually required contribution rate for fiscal years ended June 30, 2016 and 2015 was 25.00% and 20.50%, respectively, of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the employer were $ 705,816 and $ 502,831 for the years ended June 30, 2016 and 2015.

State Funding:

Pursuant to § 8327 of the PSERS Retirement Code, the Commonwealth of Pennsylvania funds 50% of the College's retirement expense directly to the Plan. This arrangement does meet the criteria of a special funding situation in accordance with GASB standards. Therefore, the net pension liabilities and related pension expense represent 50% of the College's share of these amounts.

*Pennsylvania State Employees' Retirement System (SERS)*

Section 5507 of the SERC (71 Pa. C.S. §5507) requires the Commonwealth and other employers whose employees are SERS members to make contributions to the fund on behalf of all active members and annuitants necessary to fund the liabilities and provide the annuity reserves required to pay benefits. SERS funding policy, as set by the board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employer contributions at actuarially determined rates based on SERS funding valuation, expressed as a percentage of annual retirement covered payroll, such that they, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. However, Act 2010-120 imposes rate increase collars (limits on annual rate increases) on employer contributions that keep the employer contribution rate below the rates established in accordance with actuarial parameters. The collar for Commonwealth fiscal year 2013-2014 was 4.5% and will remain at that rate until no longer needed.

## NOTE 11 PENSION BENEFITS (CONTINUED)

**Contributions (Continued)**

At December 31, 2015 and 2014, the statutorily required composite contribution rate as collared by Act 2010-120 including the Benefits Completion Plan (BCP) was 25.01% and 20.53% while the actuarially determined rate would have been 31.44% and 31.41%, respectively.

Employer rates are computed based on SERS full year ended December 31 and applied to the Commonwealth based on its fiscal year end of June 30; therefore, the employer contribution rates, in effect for SERS full year ended December 31, reflect a blended average of calculated rates. As of December 31, 2015 and 2014, the blended contribution rates, which include the BCP, were 22.77% and 18.29%, respectively. Contributions to the pension plan from the employer were $ 1,585,540 and $ 1,345,915 for the years ended June 30, 2016 and 2015.

The general membership contribution rate for all Class A and Class AA members is 5% and 6.25% of salary, respectively. The general membership contribution rate under Act 2010-120 for A-3 and A-4 members is 6.25% and 9.3% of salary, respectively. All employee contributions are recorded in individually identified accounts that are credited with interest, calculated at 4% per annum, as mandated by statute. Accumulated employee contributions are credited interest vest immediately and are returned to the employee upon termination of service if the employee is not eligible for other benefits.

### *Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

**Public School Employees' Retirement System (PSERS)**

At June 30, 2016 and 2015, the College reported a liability for its proportionate share of the net pension liability that reflected a reduction for Commonwealth pension support provided directly to the Plan. The amount recognized by the employer as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the College were as follows:

| | 2016 | 2015 |
|---|---|---|
| College's proportionate share of the net pension liability | $ 8,056,647 | $ 6,887,045 |
| Commonwealth's proportionate share of the net pension liability associated with the College | 8,056,647 | 6,887,045 |
| Total | $ 16,113,294 | $ 13,774,090 |

The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015 and June 30, 2013 to June 30, 2014. The College's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the College's proportion was 0.0186, which was an increase of 0.0012 percent from its proportion measured as of June 30, 2014. At June 30, 2014, the College's proportion was 0.0174 percent, which was an increase of 0.0011 percent from its proportion measured as of June 30, 2013.

## NOTE 11 PENSION BENEFITS (CONTINUED)

### *Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)*

**Pennsylvania State Employees' Retirement System (SERS)**

At June 30, 2016 and 2015, the College reported a liability of $ 19,827,130 and $ 19,613,942, respectively, for its proportionate share of the net pension liability. The net pension liability and the total pension liability were measured and actuarially determined as of December 31, 2015, and December 31, 2014. The College's proportion of the net pension liability was calculated utilizing the employer's projected contributions as it relates to the total projected contributions. At December 31, 2015, the College's proportion was 0.1090 percent, which was a decrease of 0.023 percent from its proportion measured as of December 31, 2014. At December 31, 2014, the College's proportion was 0.1320 percent, which was an increase of 0.69 percent from its proportion measured as of December 31, 2013.

For the year ended June 30, 2016, the College recognized pension expense and related revenue for defined benefit plans as follows:

| | PSERS | SERS | Total |
|---|---|---|---|
| Pension expense | $ 1,595,616 | $ 2,112,844 | $ 3,708,460 |
| Revenue for support provided by the Commonwealth | 700,880 | - | 700,880 |

For the year ended June 30, 2015, the College recognized pension expense and related revenue for defined benefit plans as follows:

| | PSERS | SERS | Total |
|---|---|---|---|
| Pension expense | $ 1,386,766 | $ 2,461,975 | $ 3,848,741 |
| Revenue for support provided by the Commonwealth | 603,105 | - | 603,105 |

At June 30, 2016, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | PSERS | | SERS | | Total | |
|---|---|---|---|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | $ - | $ - | $ 401,464 | $ - | $ 401,464 | $ - |
| Changes in assumptions | - | - | - | - | - | - |
| Net difference between projected and actual investment earnings | - | 49,554 | 2,607,827 | - | 2,607,827 | 49,554 |
| Changes in proportions | 682,564 | - | 609,686 | 2,662,702 | 1,292,250 | 2,662,702 |
| Difference between employer contributions and proportionate share of total contributions | 26,999 | - | - | 150,130 | 26,999 | 150,130 |
| Contributions subsequent to the measurement date | 705,816 | - | 869,930 | - | 1,575,746 | - |
| | $ 1,415,379 | $ 49,554 | $ 4,488,907 | $ 2,812,832 | $ 5,904,286 | $ 2,862,386 |

## NOTE 11 PENSION BENEFITS (CONTINUED)

### *Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)*

At June 30, 2015, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | PSERS | | SERS | | Total | |
|---|---|---|---|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | $ - | $ - | $ 106,479 | $ - | $ 106,479 | $ - |
| Changes in assumptions | - | - | - | - | - | - |
| Net difference between projected and actual investment earnings | - | 492,346 | 566,710 | - | 566,710 | 492,346 |
| Changes in proportions | 362,862 | - | 779,044 | - | 1,141,906 | - |
| Difference between employer contributions and proportionate share of total contributions | 11,795 | - | - | 191,607 | 11,795 | 191,607 |
| Contributions subsequent to the measurement date | 502,831 | - | 729,565 | - | 1,232,396 | - |
| | $ 877,488 | $ 492,346 | $ 2,181,798 | $ 191,607 | $ 3,059,286 | $ 683,953 |

Amounts of $ 705,816 and $ 869,930 are reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017 related to the PSERS and SERS plans, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30 | PSERS | SERS | Total |
|---|---|---|---|
| 2017 | $ 151,354 | $ 266,203 | $ 417,557 |
| 2018 | 151,354 | 266,203 | 417,557 |
| 2019 | 151,354 | 266,203 | 417,557 |
| 2020 | 205,947 | 90,450 | 296,397 |
| 2021 | - | (82,914) | (82,914) |
| | $ 660,009 | $ 806,145 | $ 1,466,154 |

## NOTE 11 PENSION BENEFITS (CONTINUED)

### *Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)*

**Actuarial Assumptions**

*Public School Employees' Retirement System (PSERS)*

The total pension liability as of June 30, 2015 was determined by rolling forward the System's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay
- Investment return - 7.50%, includes inflation at 3.00%
- Salary increases - Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of l %, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP- 2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

## NOTE 11 PENSION BENEFITS (CONTINUED)

### *Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)*

**Actuarial Assumptions (Continued)**

*Public School Employees' Retirement System (PSERS) (Continued)*

The target allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2015 are as follows:

| | 2016 | |
|---|---|---|
| **Asset Class** | **Target Allocation** | **Long-Term Expected Real Rate of Return** |
| Public markets global equity | 22.5% | 4.8% |
| Private markets (equity) | 15% | 6.6% |
| Private real estate | 12% | 4.5% |
| Global fixed income | 7.5% | 2.4% |
| U.S. long treasuries | 3% | 1.4% |
| TIPS | 12% | 1.1% |
| High yield bonds | 6% | 3.3% |
| Cash | 3% | 0.7% |
| Absolute return | 10% | 4.9% |
| Risk parity | 10% | 3.7% |
| MLPs/Infrastructure | 5% | 5.2% |
| Commodities | 8% | 3.1% |
| Financing (LIBOR) | (14%) | (1.1%) |
| | 100% | |

*Pennsylvania State Employees' Retirement System (SERS)*

The total pension liability as of December 31, 2015 was determined using the following actuarial assumptions:

- Actuarial cost method - Entry Age
- Investment return - 7.50%, includes inflation at 2.75%, net of expenses
- Salary increases – Average of 5.70% with a range of 3.85% - 11.05%, includes inflation at 2.75%
- Mortality rates were based on the RP-2000 Mortality Tables adjusted for actual plan experience and future improvement

The actuarial assumptions used in the December 31, 2015 valuation were based on the experience study that was performed for the five-year period ending December 31, 2015. The actuary made recommendations with respect to the actuarial assumptions and methods based on their analysis.

### *Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)*

#### Actuarial Assumptions (Continued)

*Pennsylvania State Employees' Retirement System (SERS) (Continued)*

The long-term expected real rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension. The target allocation and best estimates of geometric real rates of return for each major asset class as of December 31, 2015 are as follows:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Alternative Investments | 15% | 8.5% |
| Global Public Entity | 40% | 5.4% |
| Real Assets | 17% | 5.0% |
| Diversifying Assets | 10% | 5.0% |
| Fixed Income | 15% | 1.5% |
| Liquidity Reserve | 3% | 0.0% |
| | 100% | |

#### Discount Rate

The discount rate used to measure the total pension liability was 7.50% for both PSERS and SERS. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined, for each respective plan. Based on those assumptions, the pension plan's fiduciary net positions were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability, for each respective plan.

## NOTE 11 PENSION BENEFITS (CONTINUED)

### *Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)*

**Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability, for the PSERS plan and SERS plan, respectively, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

*Public School Employees' Retirement System (PSERS) – June 30, 2016*

| | 1% Decrease 6.50% | Current Discount Rate 7.50% | 1% Increase 8.50% |
|---|---|---|---|
| College's proportionate share of the net pension liability | $ 9,930,594 | $ 8,056,648 | $ 6,481,594 |

*Pennsylvania State Employees' Retirement System (SERS) – June 30, 2016*

| | 1% Decrease 6.50% | Current Discount Rate 7.50% | 1% Increase 8.50% |
|---|---|---|---|
| College's proportionate share of the net pension liability | $ 24,629,034 | $ 19,827,130 | $ 15,709,766 |

**Pension Plans Fiduciary Net Position**

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the System's website at www.psers.state.pa.us.

Detailed information about SERS' fiduciary net position is available in SERS Comprehensive Annual Financial Report which can be found on the System's website at www.sers.pa.gov.

**Payables to the Pension Plan**

As of June 30, 2016 and 2015, the College has $ 250,325 and $170,788 included in accounts payable and accrued wages for the contractually required contribution for the second quarter of 2016 and 2015, respectively, related to the PSERS plan.

## NOTE 11 PENSION BENEFITS (CONTINUED)

### *General Information about the Defined Contribution Pension 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 percent of their qualifying compensation; the College's contribution rate for each of the years ended June 30, 2016, 2015, and 2014 was 10 percent 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:

| | 2016 | 2015 |
|---|---|---|
| College | $ 4,360,355 | $ 4,631,101 |

## NOTE 12 POSTEMPLOYMENT HEALTHCARE PLAN

### *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. The fact that the blended rate that the retirees pay is less than the actual cost of covering retired members and their beneficiaries results in what is known as an "implicit rate subsidy" by the College, which gives rise to the other postemployment benefit (OPEB).

### *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 years 2016 and 2015, the estimated contributions were $ 64,964 and $ 62,260 in the form of additional premiums for active employees based on implicit rates for retired employees to the plan. Plan members receiving benefits also contributed $ 268,586 and $ 251,499 for 2016 and 2015, respectively, or 100% of the total premiums.

## 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:

| | 2016 | 2015 |
|---|---|---|
| Annual required contribution | $ 186,787 | $ 223,968 |
| Interest on net OPEB obligation | 57,474 | 51,034 |
| Adjustments to ARC | (78,409) | (69,623) |
| Annual OPEB cost | 165,852 | 205,379 |
| Employer contributions made (estimated) | (64,964) | (62,260) |
| Increase in net OPEB obligation | 100,888 | 143,119 |
| Net OPEB obligation - beginning of year | 1,277,196 | 1,134,077 |
| Net OPEB obligation - end of year | $ 1,378,084 | $ 1,277,196 |

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three years is as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | June 30 Net OPEB Obligation |
|---|---|---|---|
| 2016 | $ 165,852 | 39.17% | $ 1,378,084 |
| 2015 | 205,379 | 30.31% | 1,277,196 |
| 2014 | 207,899 | 25.99% | 1,134,077 |

### *Funded Status and Funding Progress*

As of July 1, 2015, the most recent actuarial valuation date, the plan had the following funding status and progress:

| Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) - Entry Age | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| 07/01/15 | $ - | $ 1,173,202 | $ 1,173,202 | 0.00% | $ 44,187,613 | 2.66% |

## NOTE 12 POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### *Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and 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, 2015 actuarial valuation, the entry age normal cost method was used. The actuarial assumption included a 4.5 percent investment rate of return (net of administrative expenses), annual salary increase of 3.75-6.25%, and an annual healthcare cost trend rate of 6 percent in 2015, 5.5% in 2016 through 2020, and the rates will gradually decrease from 5.4% in 2021 to 3.8% in 2075 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 based on a level dollar 30 year open amortization period.

### *Other Postemployment Benefits – Public School Employees' Retirement System (PSERS)*

In addition to the other postemployment benefit detailed above, the Public School Employees' Retirement System (PSERS) also provides a health insurance premium assistance program for all eligible employees, which is a cost-sharing multiple employer defined benefit plan. The PSERS Retirement Board is established by state law as an independent administrative board of the Commonwealth. The plan benefits and contributions are specified in the Pennsylvania Public School Employees' Code. Changes in benefit and contribution provisions must be made by legislation. Pursuant to state law, all legislative bills and amendments proposing to change the plan are to be accompanied with an actuarial note prepared by an enrolled actuary form the Public Employee Retirement Commission providing an estimate of the cost and actuarial effect of the proposed change. Under this program, employer contribution rates for premium assistance are established to provide reserves in the health insurance account that are sufficient for the payment of premium assistance benefits for each succeeding year.

## NOTE 12 POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)

The PSERS issues a publicly available financial report that includes financial statements and required supplementary information that can be obtained from their website at http://www.psers.state.pa.us/.

Participating eligible employees are entitled to receive premium assistance payments equal to the lesser of $ 100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible employees must obtain their health insurance through the employer. The contribution rate is set at a level necessary to establish reserves sufficient to provide premium assistance for the subsequent fiscal year. The portion of the total contribution rate for the College and used by the Commonwealth to fund the premium assistance was 0.84% for the year ended June 30, 2016.

The information below summarizes the required contributions, the percentage of required contribution actually contributed and the contribution rate for the current year and two preceding years:

| Fiscal Year Ended | Required Contribution | Percentage Contributed | Contribution Rate |
|---|---|---|---|
| 2016 | $ 28,279 | 100.00% | 0.84% |
| 2015 | $ 30,863 | 100.00% | 0.90% |
| 2014 | $ 29,898 | 100.00% | 0.93% |

## 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 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.

### *Commitments*

The College has signed contracts for renovations to the Cooper Student Center (phases one and two) in the amount of $ 2,634,367, of which $ 1,813,096 has been incurred as of June 30, 2016. The total budgeted project is estimated at $ 12,000,000. In addition, the College has a project for the Whitaker building improvements and roofing project of $ 1,000,000, of which $ 245,302 has been incurred as of June 30, 2016.

## NOTE 14 STATE APPROPRIATIONS

The following shows the detail of state appropriations earned for the years ended June 30, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Included in non-operating revenue: | | |
| Retirement contribution | $ 700,880 | $ 603,105 |
| Social security reimbursement | 2,763,865 | 2,860,425 |
| Tuition reimbursement | 31,708,674 | 30,153,518 |
| Sub-total | 35,173,419 | 33,617,048 |
| Included in capital contributions: | | |
| Debt reimbursement | 5,580,719 | 5,783,581 |
| Lease reimbursement | 1,247,047 | 1,270,483 |
| Sub-total | 6,827,766 | 7,054,064 |
| Total | $ 42,001,185 | $ 40,671,112 |

## NOTE 15 NET POSITION

### *College*

The following shows the details of net investment in capital assets at June 30, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Capital assets, net | $ 200,546,874 | $ 204,004,220 |
| Bonds and notes payable (net of premium, discount and deferred charge on bond refunding) and capital leases | (120,041,496) | (127,141,256) |
| Unspent bond proceeds | 237,901 | 331,821 |
| Total | $ 80,743,279 | $ 77,194,785 |

The remaining net position of the College is considered unrestricted.

### *HACC Foundation*

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

| | 2016 | 2015 |
|---|---|---|
| Designated for endowment purposes | $ 761,190 | $ 1,061,430 |
| Undesignated | 1,717,284 | 1,175,774 |
| | $ 2,478,474 | $ 2,237,204 |

## NOTE 15 NET POSITION (CONTINUED)

### *HACC Foundation (Continued)*

Restricted expendable net position is available for the following purposes or periods at June 30:

| | 2016 | 2015 |
|---|---|---|
| Scholarships and awards | $ 3,832,412 | $ 3,865,345 |
| Academic support | 2,302,759 | 2,474,182 |
| Capital improvements | 4,657,187 | 6,127,128 |
| Other | 1,414,945 | 1,197,231 |
| | $ 12,207,303 | $ 13,663,886 |

Restricted nonexpendable net position is to provide a permanent endowment restricted for various purposes as follows at June 30:

| | 2016 | 2015 |
|---|---|---|
| Scholarships and awards | $ 18,176,013 | $ 18,517,013 |
| Academic support | 256,013 | 267,496 |
| Other | 1,477,242 | 1,569,212 |
| | $ 19,909,268 | $ 20,353,721 |

## NOTE 16 INTERFUND ACTIVITY

At June 30, 2016 and 2015, the Foundation owes the College $ 173,276 and $ 808,511 for expenses paid for by the College that were not yet reimbursed by June 30 of the respective year and for unpaid amounts related to special initiative grants.

In addition, there were transfers made in 2016 and 2015 between the College and the Foundation. The College directly pays the salaries of College employees that provide services to the Foundation. The allocation of employee salaries between the College and the Foundation varies based on their roles and responsibilities. Thus, the Foundation's share of the expenses is reflected in these financial statements as salaries and wages, and benefits and payroll taxes totaling $ 833,271 and $ 1,010,746 for the years ended June 30, 2016 and 2015, respectively. During the years ended June 30, 2016 and 2015, the Foundation provided the College with the following funding:

| | 2016 | 2015 |
|---|---|---|
| Scholarships and awards | $ 953,822 | $ 1,181,192 |
| Capital related support | 694,118 | 1,021,386 |
| | $ 1,647,940 | $ 2,202,578 |

# REQUIRED SUPPLEMENTARY INFORMATION

# HARRISBURG AREA COMMUNITY COLLEGE
## Schedule of the College's Proportionate Share of the Net Pension Liability
## Last 10 Fiscal Years*

**Public School Employees' Retirement System (PSERS)**

| | 2016 | 2015 |
|---|---|---|
| College's proportion of the net pension liability (asset) | 0.0186% | 0.0174% |
| College's proportionate share of the net pension liability (asset) | $ 8,056,648 | $ 6,887,045 |
| Commonwealth's proportionate share of the net pension liability (asset) associated with the College | 8,056,648 | 6,887,045 |
| Total | $ 16,113,296 | $ 13,774,090 |
| College's covered-employee payroll - measurement period | $ 2,398,899 | $ 2,220,165 |
| College's proportionate share of the net pension liability (asset) as a percentage of its covered-employee | 335.85% | 310.20% |
| Plan fiduciary net position as a percentage of the total pension liability | 54.36% | 57.24% |

**State Employees' Retirement System (SERS)**

| | 2016 | 2015 |
|---|---|---|
| College's proportion of the net pension liability (asset) | 0.1090% | 0.1320% |
| College's proportionate share of the net pension liability (asset) | $ 19,827,130 | $ 19,613,942 |
| College's covered-employee payroll - measurement period | $ 6,783,607 | $ 7,852,744 |
| College's proportionate share of the net pension liability (asset) as a percentage of its covered-employee | 292.28% | 249.77% |
| Plan fiduciary net position as a percentage of the total pension liability | 58.90% | 64.79% |

**Notes**

The amounts presented for each fiscal year were determined as of the measurement period year ended that was used for the fiscal year. For PSERS, the measurement period year end is one year prior to the fiscal year end. For SERS, the measurement period year end is six months prior to the fiscal year end.

* This schedule will be expanded to show 10 fiscal years as information becomes available in the future.

# HARRISBURG AREA COMMUNITY COLLEGE
## Schedule of College Contributions – Pension Plans
## Last 10 Fiscal Years

**Public School Employees' Retirement System (PSERS)**

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| Contractually required contribution | $ 705,816 | $ 502,831 | $ 361,260 | $ 245,381 | $ 204,713 | $ 116,871 | $ 81,264 | $ 83,361 | $ 101,677 | $ 86,079 |
| Contributions in relation to the contractually required contribution | 705,816 | 502,831 | 361,260 | 245,381 | 204,713 | 116,871 | 81,264 | 83,361 | 101,677 | 86,079 |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| College's covered-employee payroll - fiscal year | $ 2,765,129 | $ 2,398,899 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Contributions as a percentage of covered-employee payroll | 25.53% | 20.96% | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

**State Employees' Retirement System (SERS)**

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| Contractually required contribution | $ 1,585,540 | $ 1,345,915 | $ 978,634 | $ 672,241 | $ 565,062 | $ 310,224 | $ 221,951 | $ 201,926 | $ 205,039 | $ 151,087 |
| Contributions in relation to the contractually required contribution | 1,585,540 | 1,345,915 | 978,634 | 672,241 | 565,062 | 310,224 | 221,951 | 201,926 | 205,039 | 151,087 |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| College's covered-employee payroll - fiscal year | $ 6,710,811 | $ 6,867,547 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Contributions as a percentage of covered-employee payroll | 23.63% | 19.60% | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

# HARRISBURG AREA COMMUNITY COLLEGE
## OPEB (Other Post Employment Benefit Plan)
## Unaudited Required Schedule of Funding Progress

| Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) - Entry Age | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| 07/01/15 | $ - | $ 1,173,202 | $ 1,173,202 | 0.00% | $ 44,187,613 | 2.66% |
| 07/01/13 | $ - | $ 1,327,604 | $ 1,327,604 | 0.00% | $ 48,575,539 | 2.73% |
| 07/01/11 | $ - | $ 1,694,666 | $ 1,694,666 | 0.00% | $ 52,739,477 | 3.21% |

# OTHER SUPPLEMENTARY INFORMATION

## HARRISBURG AREA COMMUNITY COLLEGE
## Schedule of Expenses by Functional Classification - Primary Institution
## Years Ended June 30, 2016 and 2015

**2016**

| Functional Classification | Natural Classification | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Salaries and Wages | Fringe Benefits | Supplies & Other Expense | Professional & Purchased Services | Utilities | Depreciation | Scholarships | Total |
| Instruction | $ 46,530,928 | $ 12,313,721 | $ 3,526,029 | $ 1,228,467 | $ 185,814 | $ - | $ - | $ 63,784,959 |
| Research | 29,307 | 2,242 | - | - | - | - | - | 31,549 |
| Public Support | 282,570 | 23,770 | 15,930 | - | - | - | - | 322,270 |
| Academic Support | 6,487,080 | 2,250,476 | 1,353,791 | 154,185 | - | - | - | 10,245,532 |
| Student Services | 8,822,575 | 3,561,502 | 578,396 | 675,336 | - | - | - | 13,637,809 |
| Institutional Support | 8,091,177 | 5,524,917 | 5,014,630 | 1,906,045 | - | 2,045,918 | - | 22,582,687 |
| Operation and Maintenance of Plant | 3,093,190 | 1,545,003 | 4,390,192 | 787,856 | 3,221,589 | 9,484,091 | - | 22,521,921 |
| Student Aid | 530,843 | 202 | 50,998 | 1,521 | - | - | 19,258,183 | 19,841,747 |
| Auxiliary Enterprises | 1,149,608 | 395,023 | 8,415,220 | 11,267 | 12,672 | - | - | 9,983,790 |
| Total operating expenses | $ 75,017,278 | $ 25,616,856 | $ 23,345,186 | $ 4,764,677 | $ 3,420,075 | $ 11,530,009 | $ 19,258,183 | 162,952,264 |
| Interest expense | | | | | | | | 4,792,010 |
| Total expenses | | | | | | | | $ 167,744,274 |

**2015**

| Functional Classification | Natural Classification | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Salaries and Wages | Fringe Benefits | Supplies & Other Expense | Professional & Purchased Services | Utilities | Depreciation | Scholarships | Total |
| Instruction | $ 47,568,746 | $ 13,078,058 | $ 3,803,055 | $ 2,082,346 | $ 109,155 | $ 0 | $ 124,828 | $ 66,766,188 |
| Research | 17,978 | 1,375 | 1,001 | 0 | 0 | 0 | 0 | 20,354 |
| Public Support | 229,431 | 17,552 | 40,631 | 0 | 0 | 0 | 0 | 287,614 |
| Academic Support | 6,542,617 | 2,394,949 | 1,394,989 | 119,526 | 0 | 0 | 0 | 10,452,081 |
| Student Services | 8,870,408 | 3,819,906 | 599,915 | 984,471 | 0 | 0 | 0 | 14,274,700 |
| Institutional Support | 8,336,453 | 5,225,915 | 849,767 | 2,223,803 | 0 | 2,059,265 | 0 | 18,695,203 |
| Operation and Maintenance of Plant | 3,238,668 | 1,715,387 | 8,322,902 | 1,421,667 | 3,186,898 | 9,388,770 | 0 | 27,274,292 |
| Student Aid | 422,527 | 170 | 51,044 | 0 | 0 | 0 | 22,476,287 | 22,950,028 |
| Auxiliary Enterprises | 1,025,458 | 442,288 | 8,653,631 | 762 | 11,494 | 0 | 0 | 10,133,633 |
| Total operating expenses | $ 76,252,286 | $ 26,695,600 | $ 23,716,935 | $ 6,832,575 | $ 3,307,547 | $ 11,448,035 | $ 22,601,115 | $ 170,854,093 |
| Interest expense | | | | | | | | 5,054,350 |
| Total expenses | | | | | | | | $ 175,908,443 |

# HARRISBURG AREA COMMUNITY COLLEGE
## Schedule of Expenditures of Federal Awards
## Year Ended June 30, 2016

| Federal Grantor/Pass-Through Grantor/ Program or Cluster Title | Federal CFDA Number | Total Passed-Through to Subrecipients | Cash Receipts | Accrual Basis Expenditures |
|---|---|---|---|---|
| **DEPARTMENT OF EDUCATION** | | | | |
| **Student Financial Aid Cluster** | | | | |
| FSEOG Program | 84.007 | $ - | $ 471,788 | $ 468,022 |
| FWS Program | 84.033 | - | 556,571 | 550,242 |
| PELL Program | 84.063 | - | 27,610,409 | 27,974,871 |
| Direct Student Loan Program | 84.268 | - | 64,539,306 | 64,455,292 |
| Total student financial aid cluster | | - | 93,178,074 | 93,448,427 |
| **Passed through Pennsylvania Department of Education** | | | | |
| Vocational Educational Grants Perkins III | 84.048 | - | 1,143,599 | 1,051,803 |
| **Passed through Tri-County Opportunities Industrialization Center, Inc.** | | | | |
| Adult Basic Education | 84.002 | - | 75,718 | 82,601 |
| Total Department of Education | | - | 94,397,391 | 94,582,831 |
| **CORPORATION FOR NATIONAL AND COMMUNITY SERVICE** | | | | |
| Americorp | 94.006 | - | 32,252 | 35,522 |
| **DEPARTMENT OF LABOR** | | | | |
| Trade Adjustment Assistance Community College and Career Training | 17.282 | - | 82,218 | 32,095 |
| **Passed through Tri-County Opporutnities Industrialization Center, Inc.** | | | | |
| Adult Basic Education Technology Grant | 17.267 | - | - | 4,267 |
| **Passed through YWCA of Greater Harrisburg** | | | | |
| Youthbuild Training | 17.274 | - | 59,084 | - |
| Total Department of Labor | | - | 141,302 | 36,362 |
| **DEPARTMENT OF HEALTH AND HUMAN SERVICES** | | | | |
| Keystone Education Yields Success (KEYS) | 93.558 | - | 233,081 | 280,617 |
| **Passed through South Central Regional Key** | | | | |
| PA Keys ECE Credential Program | 93.575 | - | 130,952 | 180,250 |
| **Passed through Pennsylvania Development Disabilities Council** | | | | |
| Development Disabilities Basic Support and Advocacy Grants | 93.630 | - | 78,244 | 79,412 |
| Total Department of Health and Human Services | | $ - | $ 442,277 | $ 540,279 |
| **DEPARTMENT OF HOMELAND SECURITY** | | | | |
| **Passed through the City of Philadelphia** | | | | |
| PA Urban Search and Rescue Task Force | 97.025 | $ - | $ 330,463 | $ 322,270 |
| **Passed through Lancaster/Lebanon IU** | | | | |
| Citizenship Grant | 97.010 | - | 3,535 | 2,533 |
| Total Department of Homeland Security | | - | 333,998 | 324,803 |
| **NATIONAL SCIENCE FOUNDATION** | | | | |
| **Passed through American Association of Community Colleges** | | | | |
| Advancing Technological Education | 47.076 | - | 6,502 | 9,591 |
| Total federal financial assistance | | $ - | $ 95,353,722 | $ 95,529,388 |

## NOTE 1 GENERAL INFORMATION

The accompanying Schedule of Expenditures of Federal Awards presents the activities of the federal financial assistance programs of the Harrisburg Area Community College (the College). Financial awards received directly from federal agencies, as well as financial assistance passed through other governmental agencies or nonprofit organizations, are included in the schedule.

## NOTE 2 BASIS OF PRESENTATION/ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the federal awards activity of the College and the expenditures recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented or used in the preparation of the basic financial statements.

## NOTE 3 RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The Schedule of Expenditures of Federal Awards presents only a selected portion of the activities of the College. It is not intended to, and does not, present either the financial position, changes in net position, or cash flows of the College. The financial activity for the aforementioned awards is reported in the College's statement of revenues, expenses, and changes in net position. In certain programs, the expenditures reported in the financial statements may differ from the expenditures reported in the Schedule of Expenditures of Federal Awards, due to program expenditures exceeding grant or contract budget limitations which are not reported as expenditures in the Schedule of Expenditures of Federal Awards.

## NOTE 4 FEDERAL DIRECT STUDENT LOANS

The College is only responsible for the performance of certain administrative duties and is not considered the lender with respect to the student loan programs, and accordingly, these loans are not included in its financial statements and it is not practical to determine the balance of loans outstanding to students and former students of the College under these programs. The amount reported on the Schedule of Expenditures of Federal Awards represents new loan advances during the year.

## NOTE 5 INDIRECT COST RATE

The expenditures in the accompanying Schedule of Expenditures of Federal Awards include an allocation of indirect costs. Those allocations are based upon amounts permitted under each individual financial assistance program.

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

Board of Trustees
Harrisburg Area Community College
Harrisburg, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Harrisburg Area Community College as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Harrisburg Area Community College's basic financial statements, and have issued our report thereon dated December 16, 2016. The financial statements of the Harrisburg Area Community College Foundation, the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Harrisburg Area Community College Foundation.

## *Internal Control over Financial Reporting*

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether Harrisburg Area Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### *Purpose of this Report*

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

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
December 16, 2016

# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY *THE UNIFORM GUIDANCE*

Board of Trustees
Harrisburg Area Community College
Harrisburg, Pennsylvania

## *REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM*

We have audited Harrisburg Area Community College's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Harrisburg Area Community College's major federal programs for the year ended June 30, 2016. Harrisburg Area Community College's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

### *Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of Harrisburg Area Community College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harrisburg Area Community College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Harrisburg Area Community College's compliance.

### *Opinion on Each Major Federal Program*

In our opinion, Harrisburg Area Community College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

***REPORT ON INTERNAL CONTROL OVER COMPLIANCE***

Management of Harrisburg Area Community College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Harrisburg Area Community College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harrisburg Area Community College's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be a material weakness or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
December 16, 2016

## Section I - Summary of Auditor's Results

**Financial Statements**

| | |
|---|---|
| Type of auditor's report issued: | Unmodified |
| Internal control over financial reporting: | |
| • Material weakness(es) identified? | ☐ Yes ☒ No |
| • Significant deficiencies identified? | ☐ Yes ☒ None reported |
| Noncompliance material to financial statements noted? | ☐ Yes ☒ No |

**Federal Awards**

| | |
|---|---|
| Internal control over major programs: | |
| • Material weakness(es) identified? | ☐ Yes ☒ No |
| • Significant deficiencies identified? | ☐ Yes ☒ None reported |
| Type of auditor's report issued on compliance for major programs: | Unmodified |
| • Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516 | ☐ Yes ☒ No |

Identification of major programs:

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| | Student Financial Aid Cluster: |
| 84.007 | FSEOG Program |
| 84.063 | PELL Program |
| 84.033 | FWS Program |
| 84.268 | Direct Student Loan Program |
| 84.048 | Vocational Educational Grants Perkins III |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $ 750,000 |
| Auditee qualified as low-risk auditee? | ☒ Yes ☐ No |

## Section II – Financial Statement Findings

**A. Significant Deficiencies or Material Weaknesses in Internal Control**

None noted

**B. Compliance Findings**

There were no compliance findings related to the financial statement audit required to be reported.

## Section III – Federal Findings and Questioned Costs

**A. Significant Deficiencies or Material Weaknesses in Internal Control Over Compliance**

None noted

**B. Compliance Findings**

There were no findings relating to the major federal awards as required to be reported in accordance with the Uniform Guidance by 2 CFR Section 200.516.

There were no compliance or internal control findings related to the financial statements or compliance or internal control findings related to federal awards for the year ended June 30, 2015.