

**HARRISBURG AREA COMMUNITY COLLEGE**  
Harrisburg, Pennsylvania

**FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

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## Independent Auditor's Report

Board of Trustees  
Harrisburg Area Community College  
Harrisburg, Pennsylvania

We have audited the accompanying financial statements of the business-type activities, and the discretely presented component unit of Harrisburg Area Community College (the College) as of and for the years ended June 30, 2011 and 2010, which collectively comprise the College's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the College as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows, where applicable for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2011 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

*Clifton Gunderson LLP*

Lancaster, Pennsylvania  
October 18, 2011

**HARRISBURG AREA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011 and 2010**

**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, 2011, with selected comparative information for the years ended June 30, 2010 and 2009. 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 Assets; the Statements of Revenues, Expenses, and Changes in Net Assets; and the Statements of Cash Flows. This MD&A includes comments on each statement and focuses on the activities of the College (Primary Institution) only.

Additionally, the College has implemented Government Accounting Standards Board Statement No. 39, "Determining Whether Certain Organizations are Component Units." Pursuant to the criteria set forth in GASB 39, it was determined that the HACC Foundation is a component unit, whose sole purpose is to serve the institution by providing resources for scholarships and other college projects. The Foundation's financial statements for June 30, 2011 and 2010 are displayed in the financial statements section of the report and are not included in the MD&A discussions. Separately issued financial statements are available for the HACC Foundation by contacting Mr. George A. Franklin, Jr., Vice President of Finance and College Resources, Harrisburg Area Community College, One HACC Drive, Harrisburg, PA 17110-2999.

**Financial Highlights**

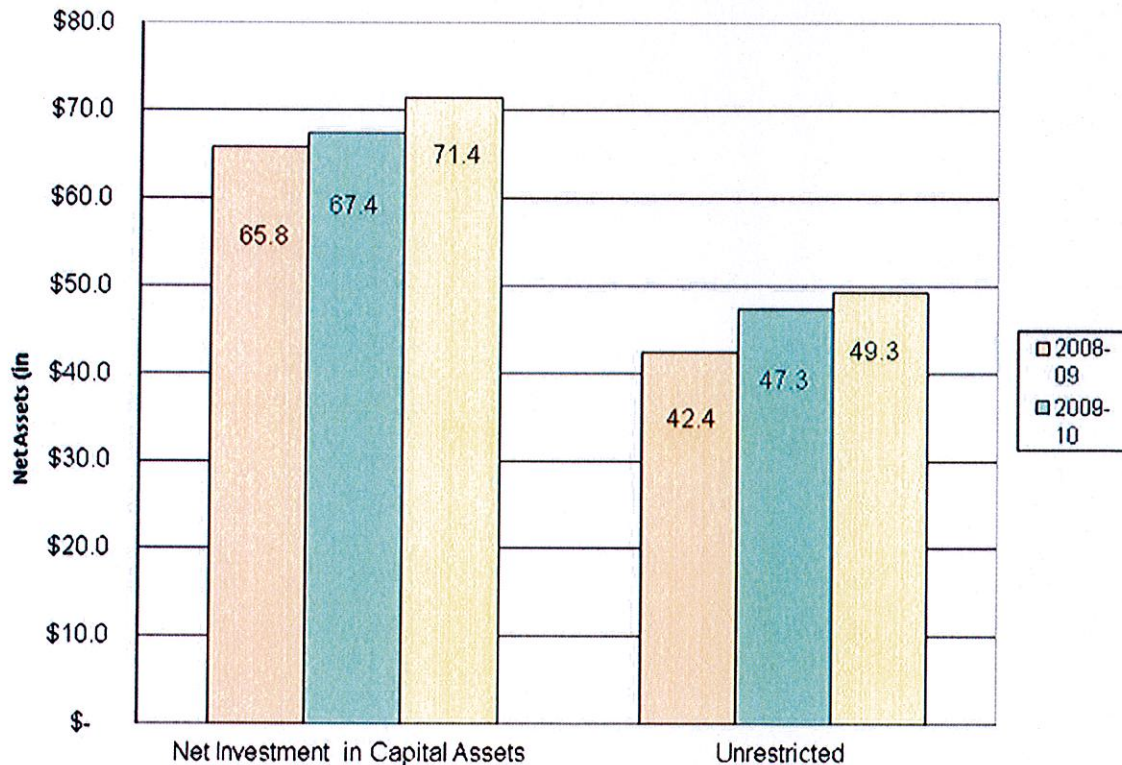
HACC's financial position continues to remain strong as of June 30, 2011. At June 30, 2011, HACC's assets of \$230.6 million exceeded its liabilities of \$109.8 million by \$120.7 million, an increase over the prior year of \$6.0 million. At June 30, 2010, assets of \$228.9 million exceeded liabilities of \$114.1 million by \$114.7 million, an increase over the prior year of \$6.5 million.

The **Net Assets**, which represent the difference between total assets and total liabilities, are divided into two major categories. The first category, invested in capital assets, net of related debt, shows the College's equity in property, plant, and equipment that it owns. The second category, unrestricted net assets, is available to use for any lawful purpose of the College. The following table and graph summarizes the College's statement of net assets by category for the fiscal years ended June 30, 2011, 2010, and 2009.

**HARRISBURG AREA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011 and 2010**

	Net Assets As of June 30 (In millions)		Increase (Decrease)	
	2011	2010	2011-2010	2010-2009
Invested in capital assets, net of related debt	\$71.4	\$67.4	\$4.0	\$65.8
Unrestricted	49.3	47.3	\$2.0	42.4
<b>Total Net Assets</b>	<b>\$120.7</b>	<b>\$114.7</b>	<b>\$6.0</b>	<b>\$108.2</b>

**Comparison of Net Assets Fiscal Years 2009, 2010, 2011**

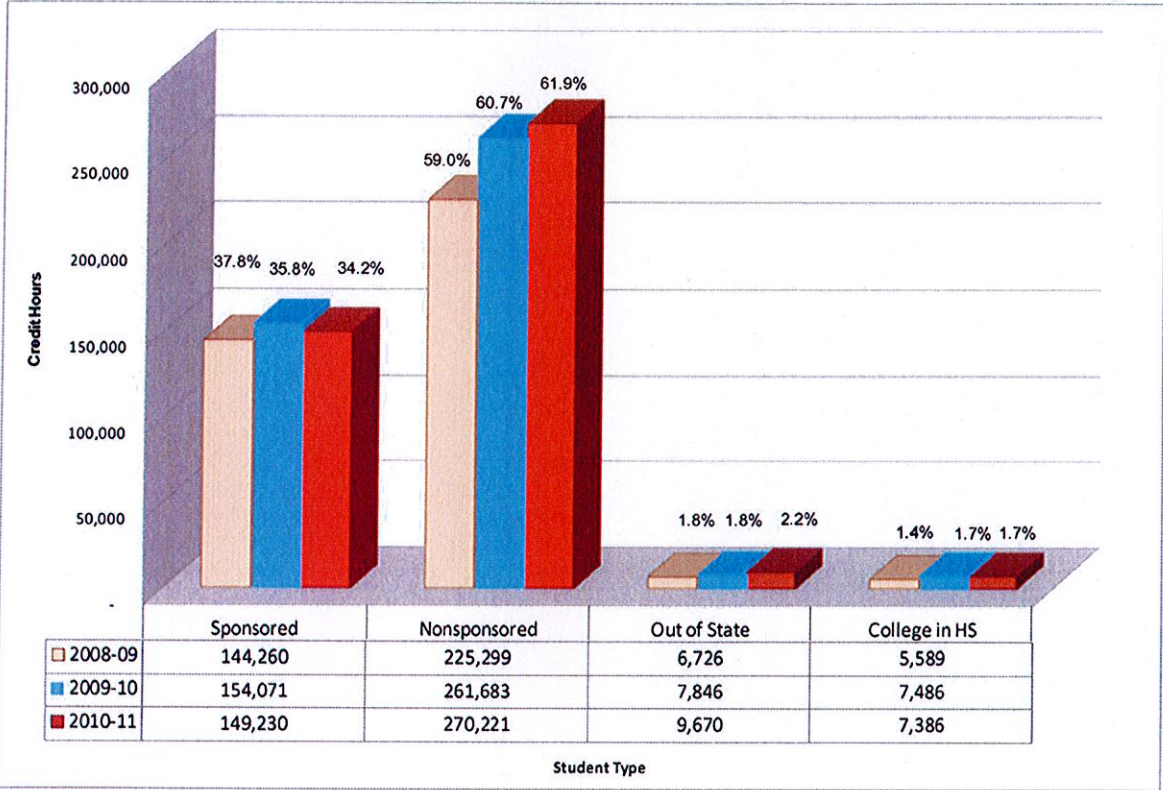


**Credit Hour Production**

After the extraordinary enrollment growth of 12.9% (49,213 credit hours) experienced in 2010 the College saw enrollments continue to grow another 1.3% (5,421 credit hours) in 2011. Total credit hours have gone from 381,874 in 2009 to 431,086 in 2010 and to 436,507 for 2011. In addition to the continuing trend of overall enrollment growth, in 2011 the College again saw the percentage of non-sponsored student credit hours increase to 61.9% of total enrollments up from 60.7% in 2010 and 59% in 2009. Each non-sponsored student paid tuition of \$183 per credit hour in 2011, while a sponsored student paid \$106.50 per credit hour and received local sponsoring school district support of \$80.50 per credit hour.

**HARRISBURG AREA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011 and 2010**

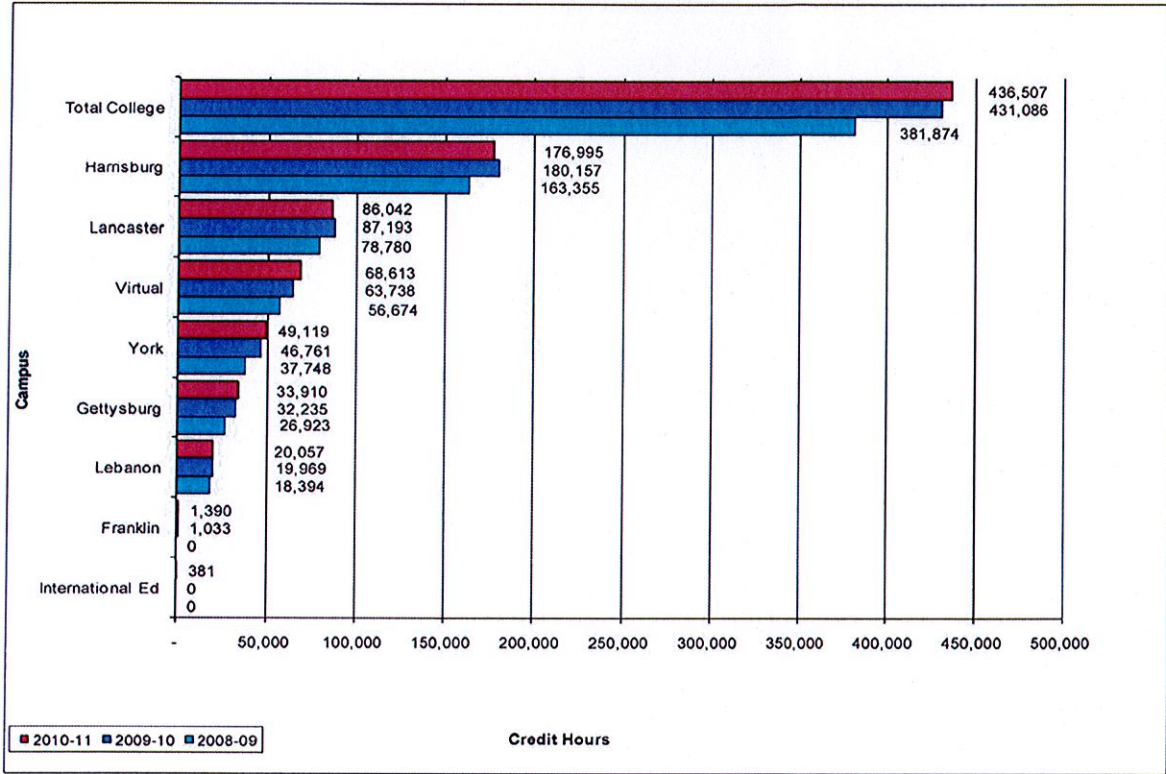
**Credit Hour Production by Student Type**





**HARRISBURG AREA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011 and 2010**

**Credit Hour Production by Campus 2009, 2010, 2011**



**HARRISBURG AREA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011 and 2010**

**Statements of Net Assets**

The statements of net assets presents the assets, liabilities, and net assets of the College as of the end of the June 30, 2011 fiscal year. This statement provides a snapshot of the financial condition of the College with unrestricted net assets representing funds available to continue the operations of the institution. It presents the end-of-the-year data for current and noncurrent assets, current and noncurrent liabilities, and net assets (assets minus liabilities). Over periods of time, increases and decreases in net assets may serve as a useful gauge of the College's financial position. As the following chart illustrates, the College is in a strong financial position with net assets increasing over the past years.

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

	2011	2010	Increase (Decrease) 2011-2010	2009	Increase (Decrease) 2010-2009
<b>Assets</b>					
Current Assets	\$92.5	\$98.0	(\$5.5)	\$80.2	\$17.8
Noncurrent Assets	138.1	130.9	7.2	115.6	15.3
<b>Total Assets</b>	<b>230.6</b>	<b>228.9</b>	<b>1.7</b>	<b>195.8</b>	<b>33.1</b>
<b>Liabilities</b>					
Current Liabilities	25.7	25.3	0.4	20.7	4.6
Noncurrent Liabilities	84.1	88.8	(4.7)	66.8	22.0
<b>Total Liabilities</b>	<b>109.8</b>	<b>114.1</b>	<b>(4.3)</b>	<b>87.5</b>	<b>26.6</b>
<b>Net Assets</b>					
Invested in Capital Assets, net of debt	71.4	67.4	4.0	65.8	1.6
Unrestricted	49.3	47.3	2.0	42.4	4.9
<b>Total Net Assets</b>	<b>\$120.7</b>	<b>\$114.7</b>	<b>\$6.0</b>	<b>\$108.2</b>	<b>\$6.5</b>

In 2011, current assets decreased by \$5.5 million over 2010. During the year, \$5.2 million in short term investments in bank CD's were liquidated and moved to cash and cash equivalents to obtain better interest rates. In addition, cash and cash equivalents increased by another \$3.8 million. During the year restricted cash and cash equivalents decreased by \$9.6 million as the College drew down bond proceeds. In 2011 the College also had small increases in accounts receivable and other assets, as well as a small decrease in bookstore inventory.

The noncurrent assets increased by \$7.2 million in 2011 from the previous year. This increase is largely due to capital assets associated with the expansion/renovation at York and Harrisburg (including Midtown and Penn Center) Campuses.

Current liabilities for 2011 increased \$400,000 due to a \$1 million increase in unearned revenue representing increased tuition and fees paid toward Summer II and Fall 2011 semesters. This increase was offset by a \$600,000 decrease in long term liabilities with final payment on the 1995 D series bonds during the year. Noncurrent liabilities for 2011 reflect a decrease of \$4.7 million in bonds payable with no additional debt added during 2011.



**HARRISBURG AREA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011 and 2010**

**Statements of Net Assets (Continued)**

Net assets increased to \$120.7 million as of June 30, 2011. The largest portion of these net assets \$71.4 million reflects the College's investment in capital assets, less any related outstanding debt used to acquire those assets. The College uses these capital assets to provide services to students, faculty, and staff so these assets are not available for future spending. Therefore, resources needed to repay this debt must be provided from other sources since capital assets themselves cannot be used to liquidate these liabilities. The unrestricted net assets balance of \$49.3 million is available to use for any lawful purpose of the College.

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

The statements of revenues, expenses, and changes in net assets show the College's financial results for the fiscal year. The statement includes the College's revenues and expenses, both operating and non-operating.

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

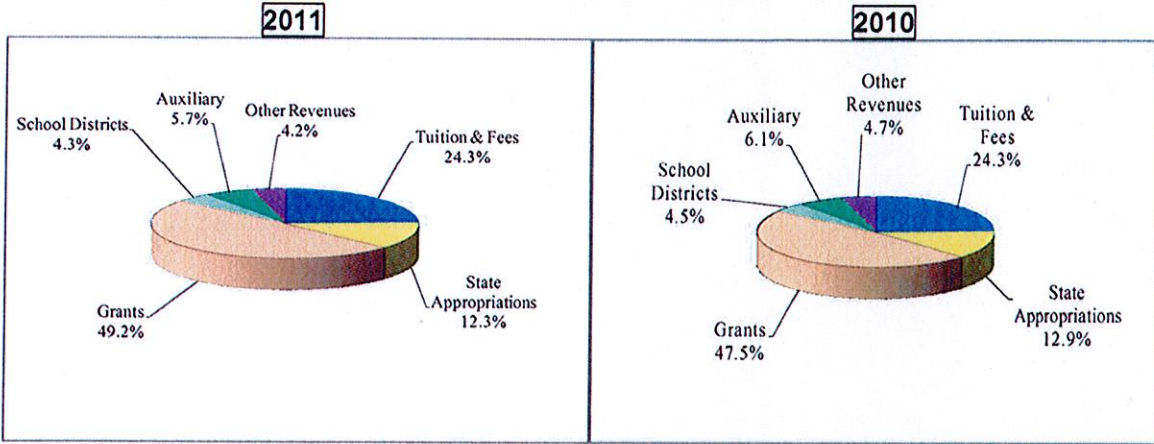
The following is a summarized version of the College's revenues, expenses, and changes in net assets for years ending June 30, 2011, 2010, and 2009 as well as graphical representations of revenues and expenses by category.

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

	2011	2010	Increase (Decrease) 2011-2010	2009	Increase (Decrease) 2010 - 2009
Operating Revenues	\$220.9	\$206.3	\$14.6	\$99.8	\$106.5
Operating Expenses	267.5	252.7	14.8	155.3	97.4
Operating Income (Loss)	(46.6)	(46.4)	(0.2)	(55.5)	9.1
Nonoperating Revenues (Net)	43.9	44.3	(0.4)	47.3	(3.0)
Net Income (Loss) Before Capital Contributions	(2.7)	(2.1)	(0.6)	(8.2)	6.1
Capital Contributions	8.7	8.6	0.1	15.2	(6.6)
Increase (Decrease) in Net Assets	\$6.0	\$6.5	(\$0.5)	\$7.0	(\$0.5)

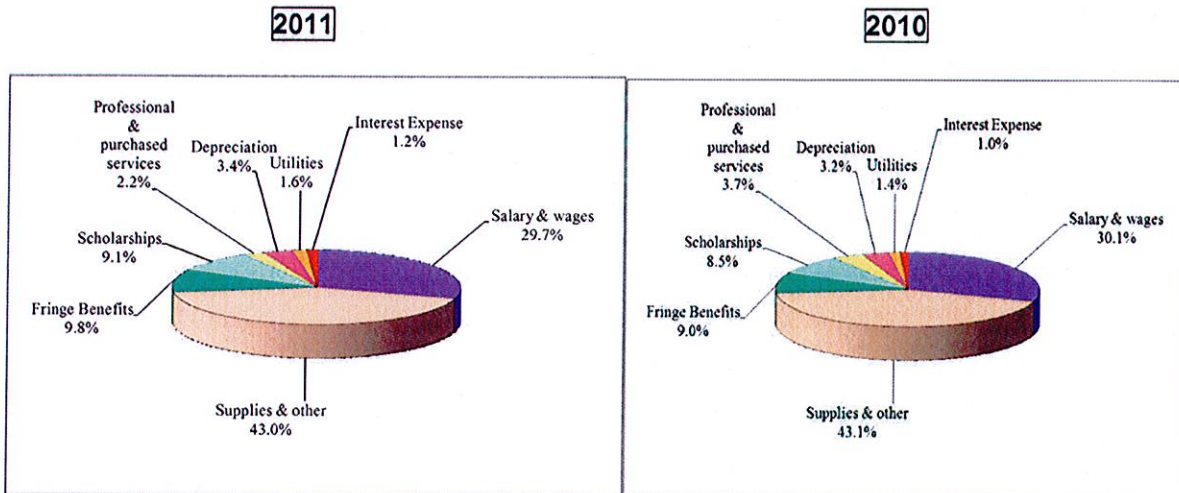
**HARRISBURG AREA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011 and 2010**

**Total Operating and Non-Operating Revenues**



Operating revenues of \$220.9 million in 2011 were \$14.6 million greater than 2010. Total operating revenues in 2010 were \$206.3 million, which was an increase of \$106.5 million over 2009 reflecting the College's move from Stafford (Federal Family Education Loan Program) to the Federal Direct Lending Program in 2010. In 2011 tuition and fees increased \$6.7 million driven by both enrollment growth of 1.3% and increased tuition per credit hour (sponsored students \$106.50 in 2011 versus \$98.50 in 2010; non-sponsored students \$183.00 in 2011 versus \$177.00 in 2010; and out-of-state students \$274.50 in 2011 versus \$265.50 in 2010). Also, the College saw an overall increase of \$10.4 million in Federal grants with Federal PELL grant up \$5.3 million and Federal Direct Loan Program up \$5.1 million. This increase was due to both an increased number of participants in these programs and the implementation of year round PELL disbursements.

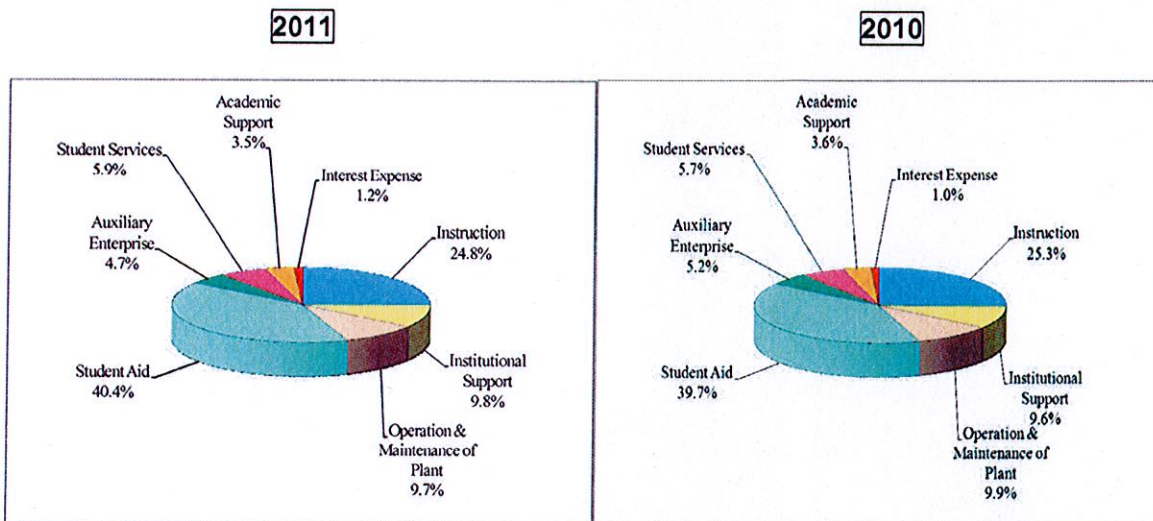
**Total Operating Expenditures by Natural Source**





**HARRISBURG AREA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011 and 2010**

**Total Operating Expenditures by Function**



The other side of enrollment growth is shown by a \$14.8 million increase in operating expenses in 2011. With the exception of professional and purchased services the College saw an increase in all other expense categories in 2011 compared to 2010. The \$3.3 million decrease in professional and purchased services reflects the decreased need for consulting services. Increased expenses include salary and fringe benefits up by \$6.9 million from a salary increase, including a partial correction of salary compression issues, rising costs for medical insurance, and additional staffing required in response to campus expansion and enrollment growth. Also increasing in 2011 were supplies and other expenses up \$6.4 million of which \$5.1 million was the increase in the Federal Direct Loan Program; utilities were up \$800,000, depreciation and amortization increased \$1 million, and Scholarships were up \$2.8 million.

Non-operating revenues (expenses) saw an overall decrease of \$400,000. While there were small increases of \$100,000 in both state appropriations and Investment income, the overall decrease is due to an increase of \$474,000 in interest on capital asset related debt, which includes interest payments on the 2009A and 2010 bonds issued to renovate/expand the Lebanon Campus, Harrisburg Campus, Campus Square building and Public Safety Center building.

The total capital contributions for fiscal year 2011 amounted to \$8.7 million. This is an increase of \$100,000 over the previous year. While state and local capital appropriations were up slightly, capital grants and gifts decreased in 2011 compared to the prior year.

The statements of revenues, expenses, and changes in net assets reflect another positive year. Continued enrollment, growth, and expansion generated both additional revenues and expenses, with the net effect being an increase to assets of \$6 million.

**HARRISBURG AREA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011 and 2010**

**Statements of Cash Flows**

The final statement presented by the College is the statements of cash flows. The statements 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, 2011, had decreased \$500,000 compared to the prior year. The following is a summary of the statement of cash flows for the years ending June 30, 2011, 2010, and 2009.

	<b>Cash Flows</b> (In millions)				
	2011	2010	Increase (Decrease) 2011-2010	2009	Increase (Decrease) 2010-2009
Cash Provided (Used) By:					
Operating Activities	(\$35.1)	(\$37.8)	\$2.7	(\$47.2)	\$9.4
Noncapital Financing Activities	45.6	46.8	(\$1.2)	47.7	(0.9)
Capital Financing Activities	(17.3)	5.5	(\$22.8)	7.2	(1.7)
Investing Activities	6.3	7.5	(1.2)	(3.5)	11.0
Net Increase (decrease) in Cash and Cash Equivalents	(0.5)	22.0	(22.5)	4.2	17.8
Cash and Cash Equivalents - Beginning of Year	67.9	45.9	\$22.0	41.7	4.2
Cash and Cash Equivalents - End of Year	\$67.4	\$67.9	(\$0.5)	\$45.9	\$22.0

**Capital Plan**

For 2011, The College has a variety of capital projects that have been planned or are currently being planned based upon funding availability. These plans include multiple renovations to the Harrisburg Campus. The College is planning to install cooling units to Blocker Hall Data Room 116. The College also has plans to; renovate existing buildings and the construction of a new Public Safety Center building. In addition, plans are in place to build a pedestrian bridge. Other Harrisburg Campus renovations include an upgrade of the fire alarm system; an upgrade to the Evan's Gym pool, HVAC upgrades; testing and inspection of circuit breakers and transformers; and the replacement of Blocker Hall chillers.

In addition to the Harrisburg Campus, there are also plans for renovations to the York Campus. There are plans to renovate the Leader Building student services area and the biology lab. The College also plans to renovate the computer labs located in the Goodling Building.

Along with the Harrisburg and York Campuses, the College plans to renovate and expand the parking lot at the Gettysburg Campus and complete HVAC repairs at the Lebanon Campus.

Finally, on the horizon the College is planning to purchase the Lancaster Campus under a lease/purchase agreement. In addition, the College is looking to purchase/renovate a property to establish one Central Administration location to replace the two existing leased facilities.

**HARRISBURG AREA COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011 and 2010**

**Capital Asset and Debt Administration**

During the year ended June 30, 2011, the College had total capital additions of approximately \$13.5 million. The capital additions included numerous renovation projects. During the year, the College expanded the Midtown Campus Facility. In addition, the College completed a renovation at Penn Center. The College also renovated the Harrisburg Blocker Hall. Other renovations that were completed during the current year include the facilities and the bookstore of the Lebanon Campus. In addition to the renovations, the capital additions also includes the purchase of property located adjacent to the Lancaster Campus.

The College has several outstanding debt instruments which were issued to finance various construction projects and other improvements. These debts, including payment schedules are fully disclosed in greater detail within Notes 7 and 8 of the financial statements.

**Economic Factors That Will Affect the Future**

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

State funding through annual appropriations and other funding continues to be unpredictable, especially with the uncertainty of the economy. The State did not replace a portion of the College's operating appropriation funded by the American Recovery and Reinvestment Act - State Fiscal Stability Funds in 2010 and 2011 resulting in a 2012 appropriation reduction of \$3.3 million dollars for HACC. At the same time, the local sponsoring school districts requested a reduction in their support, which was replaced by an equivalent increase in the sponsored student tuition rate in 2012. However, the College continues to sustain continued growth through the pursuit of alternative sources of revenue, including funding through grants, major gift campaigns, and partnerships with local businesses, hospitals, and state agencies to meet our ongoing mission to provide low cost education to all who seek it. The College continues to be innovative by offering new programs to our students.

Overall, the College's current financial position is very strong, as is evident by the 2011 financial statements, and the College will continue to fulfill its mission through efficiently managing available resources in a prudent manner.

**FINANCIAL STATEMENTS**



**HARRISBURG AREA COMMUNITY COLLEGE**  
**STATEMENTS OF NET ASSETS**  
June 30, 2011 and 2010

	Primary Institution		Component Unit Foundation	
	2011	2010	2011	2010
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 51,422,007	\$ 42,374,195	\$ 916,846	\$ 404,334
Restricted cash and cash equivalents	16,039,490	25,596,705	-	-
Short-term investments	8,219,755	13,383,407	-	-
Accounts receivable, net	10,603,611	10,455,173	30,630	54,078
Contributions receivable, net	-	-	3,678,170	2,493,620
Loans receivable - current	26,400	29,280	-	-
Other assets	3,873,783	3,790,099	4,333	1,942
Inventories	2,198,148	2,230,973	-	-
Due from HACC Foundation	148,897	157,033	-	-
<b>Total current assets</b>	<u>92,532,091</u>	<u>98,016,865</u>	<u>4,629,979</u>	<u>2,953,974</u>
<b>NONCURRENT ASSETS</b>				
Long-term investments	-	-	27,443,777	22,965,897
Loans receivable - long-term portion	15,981	24,431	-	-
Capital assets, net	138,064,097	130,861,910	-	-
<b>Total noncurrent assets</b>	<u>138,080,078</u>	<u>130,886,341</u>	<u>27,443,777</u>	<u>22,965,897</u>
<b>Total assets</b>	<u>\$ 230,612,169</u>	<u>\$ 228,903,206</u>	<u>\$ 32,073,756</u>	<u>\$ 25,919,871</u>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Due to HACC	\$ -	\$ -	\$ 148,897	\$ 157,033
Accounts payable and accrued expenses	15,336,191	15,287,736	-	-
Deposits held in custody for others	1,104,847	1,087,241	-	-
Unearned revenue	3,327,999	2,344,628	61,500	74,400
Current portion of long-term liabilities	5,986,300	6,587,297	-	-
<b>Total current liabilities</b>	<u>25,755,337</u>	<u>25,306,902</u>	<u>210,397</u>	<u>231,433</u>
<b>NONCURRENT LIABILITIES</b>				
Long-term liabilities	83,577,028	88,504,164	-	-
OPEB obligations	527,480	337,105	-	-
<b>Total noncurrent liabilities</b>	<u>84,104,508</u>	<u>88,841,269</u>	<u>-</u>	<u>-</u>
<b>Total liabilities</b>	<u>109,859,845</u>	<u>114,148,171</u>	<u>210,397</u>	<u>231,433</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	71,465,019	67,424,007	-	-
Permanently restricted	-	-	15,879,100	13,309,110
Temporarily restricted	-	-	13,857,587	10,093,629
Unrestricted	49,287,305	47,331,028	2,126,672	2,285,699
<b>Total net assets</b>	<u>120,752,324</u>	<u>114,755,035</u>	<u>31,863,359</u>	<u>25,688,438</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 230,612,169</u>	<u>\$ 228,903,206</u>	<u>\$ 32,073,756</u>	<u>\$ 25,919,871</u>

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

**HARRISBURG AREA COMMUNITY COLLEGE**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**Years Ended June 30, 2011 and 2010**

	Primary Institution		Component Unit Foundation	
	2011	2010	2011	2010
<b>REVENUES</b>				
Operating revenues				
Student tuition and fees	\$ 80,295,404	\$ 73,577,486	\$ -	\$ -
Scholarship allowance and discounts	(15,247,451)	(12,060,993)	-	-
Federal grants	125,342,023	114,930,541	-	-
State and local grants	6,183,274	5,123,317	-	-
Nongovernmental grants	286,239	244,899	-	-
Sales and services of auxiliary enterprises	15,215,737	15,349,793	-	-
Other operating revenues	8,797,233	9,203,289	-	-
Contributions	-	-	3,955,728	2,324,250
Investment income, net of investment expenses of \$116,213 in 2011 and \$120,482 in 2010	-	-	543,842	365,153
Realized and unrealized gains (losses) on investments	-	-	4,216,183	1,741,363
Total operating revenues	<u>220,872,459</u>	<u>206,368,332</u>	<u>8,715,753</u>	<u>4,430,766</u>
<b>EXPENSES</b>				
Operating expenses				
Salaries and wages	80,418,206	77,097,307	312,808	327,717
Fringe benefits and payroll taxes	26,473,246	22,853,041	143,134	143,806
Supplies and other expenses	116,469,401	110,017,890	209,050	249,931
Professional and purchased services	6,025,542	9,355,923	199,737	222,769
Utilities	4,438,761	3,598,463	-	-
Depreciation and amortization	9,130,736	8,107,889	-	-
Scholarships	24,489,079	21,655,832	899,091	1,060,652
Contributions and grants	-	-	777,012	906,493
Total operating expenses	<u>267,444,971</u>	<u>252,686,345</u>	<u>2,540,832</u>	<u>2,911,368</u>
Operating income (loss)	<u>(46,572,512)</u>	<u>(46,318,013)</u>	<u>6,174,921</u>	<u>1,519,398</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
State appropriations	32,894,939	32,749,670	-	-
Local appropriations	11,488,603	11,488,603	-	-
Gifts	1,615,118	1,787,970	-	-
Gain on sale of assets	137	-	-	-
Investment income, net of investment expenses of \$12,041 in 2011 and \$8,077 in 2010	992,891	878,336	-	-
Interest expenses	(3,128,689)	(2,654,304)	-	-
Total non-operating revenues, net	<u>43,862,999</u>	<u>44,250,275</u>	<u>-</u>	<u>-</u>
Net income (loss) before capital contributions	<u>(2,709,513)</u>	<u>(2,067,738)</u>	<u>6,174,921</u>	<u>1,519,398</u>
<b>CAPITAL CONTRIBUTIONS</b>				
Capital appropriations - local sources	600,000	400,000	-	-
Capital appropriations - state sources	7,158,637	7,039,052	-	-
Capital grants and gifts	948,165	1,146,725	-	-
Total capital contributions	<u>8,706,802</u>	<u>8,585,777</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	5,997,289	6,518,039	6,174,921	1,519,398
Net assets - beginning of year	<u>114,755,035</u>	<u>108,236,996</u>	<u>25,688,438</u>	<u>24,169,040</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 120,752,324</u>	<u>\$ 114,755,035</u>	<u>\$ 31,863,359</u>	<u>\$ 25,688,438</u>

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

**HARRISBURG AREA COMMUNITY COLLEGE**  
**STATEMENTS OF CASH FLOWS**  
Years Ended June 30, 2011 and 2010

	Primary Institution	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from tuition and fees	\$ 65,683,249	\$ 62,616,407
Receipts from grants and contracts	132,409,274	117,539,942
Receipts from auxiliary enterprise charges	15,197,285	15,351,865
Receipts from other revenues	8,991,340	9,292,251
Payments to and on behalf of employees	(104,694,552)	(98,776,389)
Payments to suppliers for good and services	(128,243,076)	(122,127,005)
Payments for financial aid and scholarships	(24,404,680)	(21,681,525)
	(35,061,160)	(37,784,454)
Net cash used in operating activities		
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	32,844,791	33,242,908
Local appropriations	11,127,547	11,843,066
Gifts received	1,589,018	1,739,352
	45,561,356	46,825,326
Net cash provided by noncapital financing activities		
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Proceed of capital debt financing	-	27,692,652
Bond issuance costs	-	(405,360)
State and local appropriations	7,758,637	7,439,052
Capital grants and gifts received	948,163	1,146,725
Purchases of capital assets	(16,404,191)	(22,694,959)
Proceeds from sale of capital assets	137	-
Principal paid on debt and capital leases	(6,421,912)	(4,997,148)
Interest paid on debt and capital leases	(3,142,186)	(2,654,304)
	(17,261,352)	5,526,658
Net cash provided by (used in) capital financing activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	-	(4,322,258)
Proceeds from sale/maturities of investments	5,163,652	10,878,683
Investment income	1,088,101	904,739
	6,251,753	7,461,164
Net cash provided by investing activities		
Increase (decrease) in cash and cash equivalents	(509,403)	22,028,694
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>67,970,900</b>	<b>45,942,206</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 67,461,497</b>	<b>\$ 67,970,900</b>
Cash and cash equivalents per statements of net assets	\$ 51,422,007	\$ 42,374,195
Restricted cash and cash equivalents per statements of net assets	16,039,490	25,596,705
<b>TOTAL CASH</b>	<b>\$ 67,461,497</b>	<b>\$ 67,970,900</b>

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

**HARRISBURG AREA COMMUNITY COLLEGE**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2011 and 2010**

	Primary Institution	
	2011	2010
<b>RECONCILIATION OF NET OPERATING LOSS TO</b>		
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		
Operating loss	\$ (46,572,512)	\$ (46,318,013)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation and amortization expense	9,130,739	8,106,939
Gain on disposal of capital assets	(137)	-
Effects of changes in operating assets and liabilities:		
Accounts receivable	(21,602)	(1,176,353)
Inventory	32,825	(652,557)
Other assets	(119,641)	(454,349)
Accounts payable and accrued expenses	361,369	1,750,938
Unearned revenue	1,051,911	53,453
Compensated absences	867,907	501,376
OPEB	190,375	215,731
Deposits	17,606	188,381
	<u>\$ (35,061,160)</u>	<u>\$ (37,784,454)</u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING TRANSACTIONS</b>		
Capital gifts of equipment and buildings	<u>\$ 123,557</u>	<u>\$ 59,048</u>
Realized and unrealized gains (losses) on investments	<u>\$ -</u>	<u>\$ -</u>

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

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

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

**Organization**

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

**Measurement Focus and Basis of Accounting**

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

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

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

**Reporting Entity**

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

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

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

**Reporting Entity (Continued)**

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

**Financial Statement Presentation**

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

- *Invested in capital assets, net of related debt* - This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are included as a component of invested in capital assets, net of related debt.
- *Restricted net assets* – This represents net assets whose use is subject to externally imposed conditions that can be fulfilled by the actions of the College or by the passage of time. The College did not have any restricted net assets as of June 30, 2011 or 2010.
- *Unrestricted net assets* - Unrestricted net assets represent resources derived from student tuition and fees, state and local appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the College to meet current expenses for any purpose.

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

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



HARRISBURG AREA COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

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

**Management's Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

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

**Restricted Cash**

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

**Investments**

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

**Total Return Policy - HACC Foundation**

The Foundation has adopted a total return policy for its permanently restricted endowment funds and a separate trust was created to maintain the investments for these funds. Based on the policy and the revocable trust agreement, income for permanently restricted funds has been redefined to mean a percentage of the value of the trust. This percentage is determined annually by the Foundation Board and applied to the previous three years' average of the market value of the trust as a whole. The percentage must legally fall within the range of 2% to 7% and was approved to be 4% for the years ended June 30, 2011 and 2010. Actual investment return, net of the 4% spending policy, is added back to the permanently restricted corpus. The purpose of this policy is to smooth out the spending of the funds while maintaining the long term preservation of fund principal as a whole under the assumption that in the long run, the actual income and growth of the fund will be greater than the spending of the fund.

**Inventories**

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

**Capital Assets**

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

HARRISBURG AREA COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

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

**Capital Assets (Continued)**

Depreciable lives are as follows:

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

**Long-Term Obligations**

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

**Income Taxes**

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

**Compensated Absences**

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

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

The estimate of the liability for the accumulated unpaid sick leave has been calculated using the vesting method. Under that method, the College has identified the accrued sick leave benefit earned to date by each employee, determined the cost of that benefit by reference to the benefit provisions and the current rates paid by the College, and estimated the probability of the payment of that benefit to employees upon retirement. The estimated expense incurred for vacation leave and sick leave is recorded as a component of fringe benefits and payroll taxes on the statement of revenues, expenses, and changes in net assets.

HARRISBURG AREA COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

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

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

**Accounts Receivable**

Accounts receivable relate to 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.

**Allowance for Doubtful Accounts**

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

**Use of Restricted Net Assets**

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

**Scholarship Allowances**

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

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

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

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.

**Pension Plans**

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

**OTHER POST EMPLOYMENT BENEFITS**

The College provides employees annual other postemployment benefits (OPEB). The 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 No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*. See Note 12 for additional information.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

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

	<u>2011</u>	<u>2010</u>
Cash on hand	\$ 11,250	\$ 11,150
Carrying amount of deposits	67,450,247	67,959,750
Carrying amount of certificates of deposits (CD's)	8,219,755	12,963,686
Carrying amount of commonfund	-	419,721
<b>Total cash and investments</b>	<u>\$ 75,681,252</u>	<u>\$ 81,354,307</u>
Cash and cash equivalents	\$ 51,422,007	\$ 42,374,195
Restricted cash and cash equivalents	16,039,490	25,596,705
Short-term investments	<u>8,219,755</u>	<u>13,383,407</u>
<b>Total cash and investments per statement of net assets</b>	<u>\$ 75,681,252</u>	<u>\$ 81,354,307</u>

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

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

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The College does not have a written policy for custodial credit risk. At June 30, 2011, the carrying amount of the College's deposits was \$67,450,247 and the bank balance was \$60,732,500. As of June 30, 2011, \$61,667,824 of the College's bank balance was exposed to custodial credit risk as follows:

	2011	2010
Uninsured and uncollateralized	\$ 5,409	\$ 1,814
Uninsured and collateral held by the pledging bank's trust department but not in the College's name	61,662,415	55,581,644
<b>Total</b>	<b>\$ 61,667,824</b>	<b>\$ 55,583,458</b>

Included in short-term investments on the statement of net assets are CD's invested at various financial institutions in the amount of \$8,219,755 at June 30, 2011 and \$12,963,686 at June 30, 2010, all with maturities of greater than three months. These CD's are considered deposits for purposes of this disclosure.

The College also has petty cash of \$11,250 included in the cash and cash equivalents amount on the Statement of Net Assets.

**NOTE 3 – INVESTMENTS**

**Credit Risk**

Included on the statement of net assets are pooled investments in the Pennsylvania School District Liquid Asset Fund (PSDLAF) of \$1,000,799 and \$6,927,844 at June 30, 2011 and June 30, 2010, respectively (as cash and cash equivalents). This fund consists of short term money market instruments and seeks to maintain a constant net asset value of \$1 per share. At June 30, 2011 and June 30, 2010, the College's investment in PSDLAF was rated AAA by Standard & Poor's Investors Service.

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

**Interest Rate Risk**

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

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**NOTE 3 – INVESTMENTS (CONTINUED)**

**Interest Rate Risk (Continued)**

As of June 30, 2010, the College had the Commonfund-Intermediate Term Fund that was subject to interest rate risk.

**Market Risk**

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

Investments of the HACC Foundation as of June 30, 2011 and 2010 are comprised of the following:

	<u>2011</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gains (Losses)</u>
Money market funds	\$ 1,287,786	\$ 1,287,786	\$ -
Equities	6,786,016	8,296,949	1,510,933
<b>Mutual Funds</b>			
Growth	2,368,044	2,693,450	325,406
Index	3,487,695	3,892,467	404,772
Value	1,171,343	1,261,489	90,146
International	2,019,827	2,133,694	113,867
Fixed income	<u>2,106,760</u>	<u>2,079,542</u>	<u>(27,218)</u>
<b>Total mutual funds</b>	11,153,669	12,060,642	906,973
Government obligations	40,613	41,342	729
Corporate bonds	<u>5,797,863</u>	<u>5,757,058</u>	<u>(40,805)</u>
<b>Total</b>	<u>\$ 25,065,947</u>	<u>\$ 27,443,777</u>	<u>\$ 2,377,830</u>



HARRISBURG AREA COMMUNITY COLLEGE  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2011 and 2010

**NOTE 3 – INVESTMENTS (CONTINUED)**

	2010		
	Cost	Fair Value	Unrealized Gains (Losses)
Money market funds	\$ 754,462	\$ 754,462	\$ -
<b>Mutual Funds</b>			
Growth	3,168,877	2,587,144	(581,733)
Index	286,148	291,096	4,948
Value	170,933	142,286	(28,647)
International	1,999,113	1,711,660	(287,453)
Fixed income	<u>3,665,750</u>	<u>3,867,978</u>	<u>202,228</u>
<b>Total mutual funds</b>	9,290,821	8,600,164	(690,657)
Equities	10,753,276	10,815,151	61,875
Government obligations	816,793	827,011	10,218
Corporate bonds	<u>1,940,053</u>	<u>1,969,109</u>	<u>29,056</u>
<b>Total</b>	<u>\$ 23,555,405</u>	<u>\$ 22,965,897</u>	<u>\$ (589,508)</u>

**NOTE 4 – ACCOUNTS AND CONTRIBUTIONS RECEIVABLE**

Accounts and contributions receivable consisted of the following at June 30:

	College		HACC Foundation	
	2011	2010	2011	2010
Student tuition and fees	\$ 6,256,366	\$ 5,903,176	\$ -	\$ -
Allowance for doubtful accounts	(1,110,000)	(959,999)	-	-
Grants and contracts receivable	3,356,738	3,704,125	-	-
Bookstore receivables	892,147	988,734	-	-
Other receivables	1,208,360	819,137	30,630	54,078
Pledges receivables (net)	-	-	3,604,425	2,419,066
Charitable remainder annuity trust held by outside party	-	-	73,745	74,554
<b>Total</b>	<u>\$10,603,611</u>	<u>\$10,455,173</u>	<u>\$ 3,708,800</u>	<u>\$ 2,547,698</u>

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**NOTE 4 – ACCOUNTS AND CONTRIBUTIONS RECEIVABLE (CONTINUED)**

Bookstore receivables include \$852,851 and \$963,906 in vendor credit memos at June 30, 2011 and 2010, respectively.

Pledges receivable of the Foundation, representing donor promises to give, have been discounted to their present value assuming their respective terms and a discount rate of 2.00% at June 30, 2011 and 2.97% at June 30, 2010. The unamortized discount was \$342,161 and \$268,992 at June 30, 2011 and 2010, respectively. The Foundation records the allowance for uncollectible promises receivable based on historical collection experience and management's analysis of specific promises made. The allowance for uncollectible promises receivable is \$43,603 for both June 30, 2011 and June 30, 2010, respectively. The discounted pledges and related allowance for uncollectible contributions, estimated by management, are scheduled to be collected as follows:

Unconditional promises are expected to be collected in:

	<u>2011</u>	<u>2010</u>
Less than one year	\$ 725,590	\$ 339,389
One year to five years	1,973,498	2,197,834
Over five years	<u>1,022,685</u>	<u>-</u>
	3,721,773	2,537,223
Less allowance for uncollectible contributions	<u>(43,603)</u>	<u>(43,603)</u>
<b>Total</b>	<u>\$ 3,678,170</u>	<u>\$ 2,493,620</u>

(CONTINUED)

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**NOTE 5 – CAPITAL ASSETS**

The following is a summary of capital asset transactions of the College for the years ended June 30, 2011 and 2010:

	2011			
	Beginning Balance	Transfers and Additions      Retirements		
<b>ASSETS NOT BEING DEPRECIATED</b>				
Land	\$ 4,536,201	\$ 72,760	\$ -	\$ 4,608,961
Construction in process	1,900,701	4,094,557	(1,456,849)	4,538,409
Total assets not being depreciated	<u>6,436,902</u>	<u>4,167,317</u>	<u>(1,456,849)</u>	<u>9,147,370</u>
<b>ASSETS BEING DEPRECIATED</b>				
Building	84,631,058	1,567,739	-	86,198,797
Improvements				
Land	2,313,938	180,541	-	2,494,479
Building	47,013,448	6,108,347	-	53,121,795
Leaseholds	15,505,622	376,713	-	15,882,335
Instructional equipment	31,915,382	1,083,526	(3,242)	32,995,666
Non-instructional equipment	17,091,106	4,231,185	(15,252)	21,307,039
Total assets being depreciated	<u>198,470,554</u>	<u>13,548,051</u>	<u>(18,494)</u>	<u>212,000,111</u>
Less accumulated depreciation				
Building	(27,355,710)	(2,043,682)	-	(29,399,392)
Improvements				
Land	(601,032)	(119,567)	-	(720,599)
Building	(11,593,451)	(2,418,995)	-	(14,012,446)
Leaseholds	(3,104,843)	(786,711)	-	(3,891,554)
Instructional equipment	(16,344,226)	(1,902,506)	1,969	(18,244,763)
Non-instructional equipment	(15,046,284)	(1,780,941)	12,595	(16,814,630)
Total accumulated depreciation	<u>(74,045,546)</u>	<u>(9,052,402)</u>	<u>14,564</u>	<u>(83,083,384)</u>
Total assets being depreciated	<u>124,425,008</u>	<u>4,495,649</u>	<u>(3,930)</u>	<u>128,916,727</u>
<b>TOTAL CAPITAL ASSETS</b>	<u>\$130,861,910</u>	<u>\$ 8,662,966</u>	<u>\$ (1,460,779)</u>	<u>\$138,064,097</u>

**HARRISBURG AREA COMMUNITY COLLEGE**  
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**NOTE 5 – CAPITAL ASSETS (CONTINUED)**

	<b>2010</b>			<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Transfers and Additions      Retirements</b>		
<b>ASSETS NOT BEING DEPRECIATED</b>				
Land	\$ 3,283,478	\$ 1,252,723	\$ -	\$ 4,536,201
Construction in process	<u>1,722,029</u>	<u>1,789,798</u>	<u>(1,611,126)</u>	<u>1,900,701</u>
Total assets not being depreciated	<u>5,005,507</u>	<u>3,042,521</u>	<u>(1,611,126)</u>	<u>6,436,902</u>
<b>ASSETS BEING DEPRECIATED</b>				
Building	81,695,377	2,935,682	-	84,631,059
Improvements				
Land	1,701,999	611,939	-	2,313,938
Building	33,179,534	13,833,914	-	47,013,448
Leaseholds	14,733,976	771,645	-	15,505,621
Instructional equipment	29,821,847	2,157,702	(64,166)	31,915,383
Non-instructional equipment	<u>15,478,230</u>	<u>1,714,151</u>	<u>(101,275)</u>	<u>17,091,106</u>
Total assets being depreciated	<u>176,610,963</u>	<u>22,025,033</u>	<u>(165,441)</u>	<u>198,470,555</u>
Less accumulated depreciation				
Building	(25,353,112)	(2,002,598)	-	(27,355,710)
Improvements				
Land	(500,568)	(100,464)	-	(601,032)
Building	(9,863,949)	(1,729,504)	-	(11,593,453)
Leaseholds	(2,349,413)	(755,429)	-	(3,104,842)
Instructional equipment	(14,535,727)	(1,865,788)	57,288	(16,344,227)
Non-instructional equipment	<u>(13,551,286)</u>	<u>(1,586,971)</u>	<u>91,974</u>	<u>(15,046,283)</u>
Total accumulated depreciation	<u>(66,154,055)</u>	<u>(8,040,754)</u>	<u>149,262</u>	<u>(74,045,547)</u>
Total assets being depreciated	<u>110,456,908</u>	<u>13,984,279</u>	<u>(16,179)</u>	<u>124,425,008</u>
<b>TOTAL CAPITAL ASSETS</b>	<u>\$115,462,415</u>	<u>\$ 17,026,800</u>	<u>\$ (1,627,305)</u>	<u>\$130,861,910</u>

Capitalized interest was \$492,125 and \$435,734 for the years ended June 30, 2011 and 2010, respectively.

Depreciation expense was \$9,052,402 and \$8,040,754 for the years ended June 30, 2011 and 2010, respectively.

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

Other assets of the College at June 30 consisted of:

	2011	2010
Prepaid expenses	\$ 2,713,719	\$ 2,506,447
Bond issue costs	1,538,793	1,584,044
Accumulated amortization – bond issue costs	(378,729)	(300,392)
<b>Total</b>	<b>\$ 3,873,783</b>	<b>\$ 3,790,099</b>

Amortization expense was \$78,337 and \$66,185 for the years ended June 30, 2011 and 2010, respectively.

**NOTE 7 – LONG-TERM LIABILITIES**

	2011					
	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Long-term Portion
Capital leases payable	\$ 86,016	\$ -	\$ (39,969)	\$ 46,047	\$ 41,856	\$ 4,191
General obligation bonds						
Series of 1995 D	950,000	-	(950,000)	-		-
Series of 2004	14,645,000	-	(2,175,000)	12,470,000	1,745,000	10,725,000
Series of 2005	2,940,000	-	(550,000)	2,390,000	570,000	1,820,000
Series of 2008	25,170,000	-	(1,155,000)	24,015,000	1,200,000	22,815,000
Series of 2009	17,390,000	-	(5,000)	17,385,000	585,000	16,800,000
Series of 2009A	12,610,000	-	(1,230,000)	11,380,000	1,280,000	10,100,000
Series of 2010	15,280,000	-	-	15,280,000	5,000	15,275,000
Revolving loan	781,664	-	(316,943)	464,721	310,792	153,929
Bond premium	37,671	-	(2,686)	34,985	2,686	32,299
Bond discount	(523,163)	-	10,602	(512,561)	(30,971)	(481,590)
Loss on refinancing	(332,580)	-	17,956	(314,624)	(20,031)	(294,593)
 Total leases and bonds/	 89,034,608	 -	 (6,396,040)	 82,638,568	 5,689,332	 76,949,236
Other liabilities						
Compensated absences:						
Vacation leave	3,309,695	536,955	(154,520)	3,692,130	215,380	3,476,750
Sick leave	2,747,158	640,538	(155,066)	3,232,630	81,588	3,151,042
 Total other liabilities	 6,056,853	 1,177,493	 (309,586)	 6,924,760	 296,968	 6,627,792
 Total long-term liabilities	 <b>\$ 95,091,461</b>	 <b>\$ 1,177,493</b>	 <b>\$ (6,705,626)</b>	 <b>\$ 89,563,328</b>	 <b>\$ 5,986,300</b>	 <b>\$ 83,577,028</b>

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

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

	2010					
	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Long-term Portion
Capital leases payable	\$ 29,352	\$ 100,500	\$ (43,836)	\$ 86,016	\$ 39,969	\$ 46,047
General obligation						
Series of 1995 D	1,845,000	-	(895,000)	950,000	950,000	-
Series of 2004	16,760,000	-	(2,115,000)	14,645,000	2,175,000	12,470,000
Series of 2005	3,470,000	-	(530,000)	2,940,000	550,000	2,390,000
Series of 2008	26,275,000	-	(1,105,000)	25,170,000	1,155,000	24,015,000
Series of 2009	17,390,000	-	-	17,390,000	5,000	17,385,000
Series of 2009A	-	12,610,000	-	12,610,000	1,230,000	11,380,000
Series of 2010	-	15,280,000	-	15,280,000	-	15,280,000
Revolving loan	1,089,976	-	(308,312)	781,664	316,943	464,721
Bond premium	40,357	-	(2,686)	37,671	2,686	34,985
Bond discount	(243,128)	(297,848)	17,813	(523,163)	(30,971)	(492,192)
Loss on refinancing	(352,612)	-	20,032	(332,580)	(20,032)	(312,548)
Total leases and bonds/	<u>66,303,945</u>	<u>27,692,652</u>	<u>(4,961,989)</u>	<u>89,034,608</u>	<u>6,373,595</u>	<u>82,661,013</u>
Other liabilities						
Compensated absences:						
Vacation leave	3,050,619	380,679	(121,603)	3,309,695	167,338	3,142,357
Sick leave	<u>2,504,858</u>	<u>269,103</u>	<u>(26,803)</u>	<u>2,747,158</u>	<u>46,364</u>	<u>2,700,794</u>
Total other liabilities	<u>5,555,477</u>	<u>649,782</u>	<u>(148,406)</u>	<u>6,056,853</u>	<u>213,702</u>	<u>5,843,151</u>
<b>Total long-term liabilities</b>	<u>\$ 71,859,422</u>	<u>\$ 28,342,434</u>	<u>\$ (5,110,395)</u>	<u>\$ 95,091,461</u>	<u>\$ 6,587,297</u>	<u>\$ 88,504,164</u>

**Bonds Payable**

Revenue bonds payable to the State Public School Building Authority (SPSBA) at June 30, 2011 and 2010, that were used to finance various construction projects and other improvements, consisted of the following:

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

	2011	2010
1995 D, issued \$ 16,685,000 in June 1995; at a fixed rate of 4.50% - 6.25%, interest and principal payable semi-annually through April 2011.	\$ -	\$ 950,000
2004, issued \$26,530,000 in July 2004; at a fixed rate of 2.25% - 5.25%, interest and principal payable semi-annually through April 2025.	12,470,000	14,645,000
2005, issued \$5,435,000 in July 2005; at a fixed rate of 3.00% - 4.00%, interest and principal payable semi-annually through April 2015.	2,390,000	2,940,000
2008, issued \$26,275,000 in December 2008; at a fixed rate of 4.00% - 5.75%, interest and principal payable semi-annually through October 2029.	24,015,000	25,170,000
2009, issued \$17,390,000 in May 2009; at a fixed rate of 2.00 - 4.50%, interest and principal payable semi-annually through October 2027.	17,385,000	17,390,000
2009A, issued \$12,610,000 in November 2009; at a fixed rate of 2.00% - 4.00%; interest and principal payable semi-annually through October 2024.	11,380,000	12,610,000
2010, issued \$ 15,280,000 in May 2010; at a fixed rate of 3.00 - 4.00% interest and principal payable semi-annually through October 2030.	15,280,000	15,280,000
<b>Total bonds payable</b>	<b>\$ 82,920,000</b>	<b>\$ 88,985,000</b>

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

**Note Payable**

The revolving loan note payable of \$464,721 to the State Public School Building Authority (SPSBA) dated April 1, 2008 has a fixed interest rate of 2.78% and a maturity date of December 1, 2012. Interest and principal are payable semi-annually beginning June 1, 2008. This note was fully drawn as of June 30, 2009 for the full amount of \$1,575,000.

*Future Maturities*

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

Year Ending June 30,	State Share		College Share		Principal	Interest	Total
	Principal	Interest	Principal	Interest			
2012	\$ 2,135,396	\$ 895,945	\$ 3,560,396	\$ 2,469,020	\$ 5,695,792	\$ 3,364,965	\$ 9,060,757
2013	2,204,465	823,979	3,664,465	2,354,291	5,868,930	3,178,270	9,047,200
2014	2,215,000	745,488	3,720,000	2,229,363	5,935,000	2,974,851	8,909,851
2015	1,617,500	662,876	3,807,500	2,088,482	5,425,000	2,751,358	8,176,358
2016	1,350,000	605,158	3,175,000	1,967,401	4,525,000	2,572,559	7,097,559
2017-2021	6,567,500	2,232,072	16,052,500	7,960,128	22,620,000	10,192,200	32,812,200
2022-2026	5,230,000	864,092	15,815,000	4,418,992	21,045,000	5,283,084	26,328,084
2027-2031	1,355,000	61,236	10,915,000	1,173,498	12,270,000	1,234,734	13,504,734
<b>Total</b>	<b>\$ 22,674,861</b>	<b>\$ 6,890,846</b>	<b>\$ 60,709,861</b>	<b>\$ 24,661,175</b>	<b>\$ 83,384,722</b>	<b>\$ 31,552,021</b>	<b>\$ 114,936,743</b>

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**NOTE 8 – LEASES**

**Capital Leases**

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

	<u>2011</u>	<u>2010</u>
Amount capitalized	\$ 378,876	\$ 378,876
Accumulated amortization	<u>(330,915)</u>	<u>(311,466)</u>
<b>Net book value</b>	<b><u>\$ 47,961</u></b>	<b><u>\$ 67,410</u></b>

Amortization expense of \$19,449 and \$68,873 for 2011 and 2010, respectively, is included with depreciation expense.

The future minimum lease payments under capital leases as of June 30, 2011 are as follows:

2012	\$ 51,832
2013	8,183
	<u>          </u>
Total minimum lease payments	60,015
Less amount representing interest	<u>13,968</u>
<b>Present value of future minimum lease payments</b>	<b><u>\$ 46,047</u></b>

**Operating Leases**

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

	<u>Lancaster</u>	<u>Other</u>	<u>Total</u>
2012	\$ 2,967,528	\$ 4,856,067	\$ 7,823,595
2013	3,044,757	4,918,796	7,963,553
2014	3,125,213	3,749,272	6,874,485
2015	3,213,822	3,608,943	6,822,765
2016	3,301,727	3,469,134	6,770,861
2017-2021	18,053,532	14,674,371	32,727,903
2022-2026	<u>9,794,940</u>	<u>2,915,573</u>	<u>12,710,513</u>
<b>Total minimum lease payments</b>	<b><u>\$43,501,519</u></b>	<b><u>\$38,192,156</u></b>	<b><u>\$81,693,675</u></b>

The total rent under operating leases for the years ended June 30, 2011 and 2010 was \$8,866,476 and \$8,651,808, respectively.



**HARRISBURG AREA COMMUNITY COLLEGE**  
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**NOTE 9 – DUE TO THE COMMONWEALTH OF PENNSYLVANIA**

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

	<u>2011</u>	<u>2010</u>
2005-2006	\$ -	\$ 57,823
2009-2010	-	463,858
2010-2011	<u>500,612</u>	<u>-</u>
<b>TOTAL</b>	<u>\$ 500,612</u>	<u>\$ 521,681</u>

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

**NOTE 10 – RISK MANAGEMENT**

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

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

The College is self-insured for dental coverage and a prescription drug plan. The liability for estimated claims at June 30, 2011 represents three months of claims paid. During the year ended June 30, 2011, the College entered into a self-insured prescription drug plan. Claims paid totaled \$868,599 for the first six months of the program. The College set up a reserve account of \$150,000, which is based on management's estimates and the prior activity in the prescription plan for the first six months. The dental coverage and the prescription drug plan liabilities are included in accounts payable and accrued expenses on the statements of net assets. Changes in the College's claims liability amount for the years ended June 30 were:

	<u>2011</u>	<u>2010</u>
Beginning balance	\$ 148,244	\$ 141,001
Claims made/changes in estimates	1,681,513	600,219
Claims paid	<u>(1,517,525)</u>	<u>(592,976)</u>
Ending Balance	<u>\$ 312,232</u>	<u>\$ 148,244</u>

HARRISBURG AREA COMMUNITY COLLEGE  
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**NOTE 11 – PENSION BENEFITS**

**Pension Plans**

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

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

The contribution policy for PSERS is established in the Public School Employees' Retirement Code and requires contributions by active members, employers and the Commonwealth. Most active members contribute at a rate of 5.25% of their qualifying compensation. However, effective January 1, 2002, employees could make an election to increase from 5.25% to 6.50%. Members joining the PSERS on or after July 22, 1983 contribute at a rate of 6.25%. However, effective January 1, 2002, employees could make an election to increase from 6.25% to 7.50%. The contribution rate for the College's contribution is an actuarially determined rate. The contribution rate for the College contribution at June 30, 2011 and 2010 was 2.82% and 2.39% of annual covered payroll, respectively. The College's contributions to PSERS for the years ended June 30, 2011, 2010, and 2009, were \$131,830, \$97,111, and \$99,199, respectively, equal to the required contractual contribution. At the time of transition to GASB No. 27, *Accounting for Pensions by State and Local Governmental Employers*, there was no pension liability or asset for the PSERS plan.

The contribution policy for SERS, as established by the SERS Board, requires contributions by active members and employers. As of January 1, 2002, active members could make an election to increase contributions from a rate of 5% to 6.25% of their qualifying compensation. The contribution rate for the College is an actuarially determined rate, which was 3.29% for Class A and 4.11% for Class AA for the year ended June 30, 2011, and 2.52% for Class A and 3.15% for Class AA for the year ended June 30, 2010, respectively. The College's contributions to SERS for the years ended June 30, 2011, 2010, and 2009, were \$310,224, \$221,951, and \$201,926, respectively, equal to the required contractual contribution. At the time of transition to GASB No. 27, there was no pension liability or asset for the SERS plan.

**HARRISBURG AREA COMMUNITY COLLEGE**  
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**NOTE 11 – PENSION BENEFITS (CONTINUED)**

**Pension Plans (Continued)**

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 minimum rate of 5% of their qualifying compensation; the College's contribution rate for each of the years ended June 30, 2011, 2010, and 2009 was 10% of qualifying compensation. In addition, employees may contribute to TIAA-CREF through the Supplemental Retirement Annuity.

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

	2011	2010	2009
College	\$ 4,925,211	\$ 4,637,261	\$ 4,326,599
Employees	4,325,163	4,305,828	3,926,128

**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.

**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 2011 and 2010, the College contributed \$76,999 and \$55,179, respectively, in the form of additional premiums for active employees based on implicit rates for retired employees to the Plan.

**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:

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**NOTE 12 – POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)**

	<u>2011</u>	<u>2010</u>
Annual required contribution (ARC)	\$ 272,899	\$ 272,899
Interest on net OPEB obligation	15,170	5,462
Adjustment to ARC	(20,695)	(7,451)
Annual OPEB cost	267,374	270,910
Employer contributions made	(76,999)	(55,179)
Increase in net OPEB obligation	190,375	215,731
Net OPEB obligation – beginning of the year	337,105	121,374
Net OPEB obligation – end of the year	\$ 527,480	\$ 337,105

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	June 30 Net OPEB Obligation
2011	\$ 267,374	29%	\$ 527,480
2010	\$ 270,910	20%	\$ 337,105

**Funded Status and Funding Progress**

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

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

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

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**NOTE 12 – POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)**

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2009 actuarial valuation, the entry age normal cost method was used. The actuarial assumption included a 4.5% investment rate of return (net of administrative expenses), annual salary increase of 4.25-7%, and an annual healthcare cost trend rate of 8% in 2009, decreasing 0.5% to an ultimate rate of 5.5% in 2014 and later. The actuarial value of assets was based on the fair value of assets, of which there are none. The UAAL is being amortized using a level dollar method over a 30 year open amortization period.

**NOTE 13 – CONTINGENCIES AND COMMITMENTS**

**Contingencies**

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

**Lancaster Campus Phase II Construction Disputes**

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

**HARRISBURG AREA COMMUNITY COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

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

**Lancaster Campus Phase II Construction Disputes (Continued)**

Pitney initiated litigation against HACC to recover the additional construction costs awarded by the arbitration panel to Warfel, as well as other alleged damages. Indirectly as a result of the disputes and litigations pending, the trustee called one of the series of bonds, resulting in the drawdown of the letter of credit supporting the bonds and a default under the financing arrangements. The Lender Group agreed to forebear on any claims or potential claims against Pitney and HACC arising out of the alleged defaults in the financial agreements, while Pitney and HACC resolve their disputes. Pitney and HACC agreed to arbitrate all disputes between them, including which party is responsible for the cost overruns paid to Warfel and for the claims of the Lender Group.

On June 14, 2011, the arbitrators issued an interim award. The arbitrators awarded Pitney most of the additional construction costs Pitney incurred, and they also reaffirmed HACC's contractual right to purchase the Campus. The arbitrators concluded that HACC should have been able to purchase the property as of January 1, 2010. The arbitrators requested additional submissions from the parties regarding calculation of purchase price and other miscellaneous issues. Based upon the arbitrators' interim award, the sale of the property is to occur before or on December 15, 2011.

**Commitments**

As of June 30, 2011, the College had commitments for the following projects:

	<u>Total Estimated Costs</u>	<u>Total Costs Paid</u>
Campus Square	\$ 2,202,127	\$ 1,957,020
Harrisburg Campus Renovations	6,874,340	4,594,119
PSC	14,800,334	1,277,634
York Leader Building Renovation	<u>576,000</u>	<u>18,961</u>
<b>Total</b>	<u>\$ 24,452,801</u>	<u>\$ 7,847,734</u>

**NOTE 14 – STATE APPROPRIATIONS**

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

	<u>2011</u>	<u>2010</u>
Included in non-operating revenue:		
Social security reimbursement	\$ 2,944,154	\$ 2,798,885
Tuition reimbursement	<u>29,950,785</u>	<u>29,950,785</u>
Sub-total	<u>32,894,939</u>	<u>32,749,670</u>
Included in capital contributions:		
Debt reimbursement	3,545,544	3,339,206
Lease reimbursements	3,613,093	3,649,846
Capital contribution	-	50,000
Sub-total	<u>7,158,637</u>	<u>7,039,052</u>
<b>Total</b>	<u>\$ 40,053,576</u>	<u>\$ 39,788,722</u>

HARRISBURG AREA COMMUNITY COLLEGE  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2011 and 2010

**NOTE 15 – NET ASSETS**

**College**

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

	<u>2011</u>	<u>2010</u>
Capital assets, net	\$138,064,097	\$130,861,910
Bonds and notes payable, net	(82,592,521)	(88,948,592)
Capital lease payable	(46,047)	(86,016)
Unspent bond proceeds	<u>16,039,490</u>	<u>25,596,705</u>
<b>Total</b>	<u>\$ 71,465,019</u>	<u>\$ 67,424,007</u>

The remaining net assets of the College are considered unrestricted.

**HACC Foundation**

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

	<u>2011</u>	<u>2010</u>
Designated for endowment purposes	\$ 983,855	\$ 830,253
Undesignated	<u>1,142,817</u>	<u>1,455,446</u>
<b>Total</b>	<u>\$ 2,126,672</u>	<u>\$ 2,285,699</u>

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

	<u>2011</u>	<u>2010</u>
Provide support for future years' activities	<u>\$13,857,587</u>	<u>\$10,093,629</u>

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

	<u>2011</u>	<u>2010</u>
Scholarships and awards	\$13,190,993	\$10,016,936
Academic support	1,152,082	1,269,670
Other	<u>1,536,025</u>	<u>2,022,504</u>
<b>Total</b>	<u>\$15,879,100</u>	<u>\$13,309,110</u>

HARRISBURG AREA COMMUNITY COLLEGE  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2011 and 2010

**NOTE 16 – EXPENSES BY FUNCTIONAL CLASSIFICATION**

The College reports expenses by natural classification in the statement of revenues, expenses and changes in net assets. The following are the College's expenses reported by functional classification for the years ended June 30:

<u>Function</u>	<u>2011</u>	<u>2010</u>
Instruction	\$ 67,020,513	\$ 64,616,548
Research	1,635	15,145
Public Support	30,950	76,096
Academic support	9,544,546	9,241,903
Student services	15,885,591	14,572,889
Institutional support	26,678,317	24,382,939
Operation and maintenance of plant	26,282,258	25,236,951
Student aid	109,311,618	101,349,114
Auxilliary	12,689,543	13,194,760
	<u>\$ 267,444,971</u>	<u>\$ 252,686,345</u>

This information is an integral part of the accompanying financial statements.



**REQUIRED SUPPLEMENTAL INFORMATION**

**HARRISBURG AREA COMMUNITY COLLEGE**  
**OPEB (Other Post Employment Benefit Plan)**  
**UNAUDITED REQUIRED SCHEDULE OF FUNDING PROGRESS**  
 June 30, 2011 and 2010

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

The *Governmental Accounting Standards Board (GASB)* has issued *Statement Number 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*. The following schedule is required and represents the first year of funded status and funding progress for Harrisburg Area Community College. Please refer to Note 12 of the Notes to the financial statements on pages 35-37 for a more detailed description of Harrisburg Area Community College's reporting of Other Post Employment Benefits (OPEB) for fiscal year 2011.

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

**SUPPLEMENTAL INFORMATION**

**HARRISBURG AREA COMMUNITY COLLEGE  
SCHEDULES OF EXPENSES BY FUNCTIONAL  
CLASSIFICATION – PRIMARY INSTITUTION**  
Year Ended June 30, 2011

2011

FUNCTIONAL CLASSIFICATION	NATURAL CLASSIFICATION								Total
	Salaries and Wages	Fringe Benefits	Supplies and Other Expenses	Professional and Purchased Services	Utilities	Depreciation	Scholarships		
Instruction	\$ 48,639,015	\$ 12,107,847	\$ 4,130,235	\$ 1,692,628	\$ 174,745	\$ -	\$ 276,043		67,020,513
Research	-	-	1,635	-	-	-	-		1,635
Public support	13,970	1,251	14,404	1,325	-	-	-		30,950
Academic support	5,828,453	1,843,832	1,712,096	160,165	-	-	-		9,544,546
Student services	10,552,382	3,970,505	724,604	628,100	-	-	10,000		15,885,591
Institutional support	9,935,985	6,287,301	6,146,877	2,078,026	-	2,230,128	-		26,678,317
Operation and maintenance of plant	3,578,477	1,711,228	8,519,646	1,398,268	4,174,031	6,900,608	-		26,282,258
Student aid	477,039	-	84,631,543	-	-	-	24,203,036		109,311,618
Auxiliary enterprises	1,392,885	551,282	10,588,361	67,030	89,985	-	-		12,689,543
Total operating expenses	80,418,206	26,473,246	116,469,401	6,025,542	4,438,761	9,130,736	24,489,079		267,444,971
Interest expense									3,128,689
<b>Total expenses</b>									<b>\$ 270,573,660</b>

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

2010

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